

ER 6-9948/a

APR 16 1955

ind
Mr. C. J. Symington
National Planning Association
1606 New Hampshire Avenue, N. W.
Washington 9, D. C.

Dear Charlie:

Many thanks for your letter of April 4 and enclosures advising me of the success of the international press conference between New York and Manila.

I think that this sort of thing can do a lot of good and I am happy to hear that the venture found proper support and met with the success it so well deserved.

With best of luck to you in any future endeavors along these lines.

Sincerely,

SEENED

Allen W. Dulles
Director

STAT

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April 4, 1955

Mr. Allen W. Dulles, Director
Central Intelligence Agency
Washington 25, D. C.

Dear Allen:

Thanks to Bill Paley of CBS, the international press conference at the Waldorf on March 17 with the two-way radio-telephone hookup between New York and Manila was a great success.

You may be interested in reading a transcript of the exchange of questions and answers between President Magsaysay and press representatives at the Waldorf so I am enclosing a copy.

The trans-Pacific talks were very dramatic and there was widespread public interest in the Philippines and throughout Asia. Perhaps this practical method of improving human relationships and removing suspicion of our motives might be used to advantage in other parts of the world.

Sincerely yours,

CJS
C. J. Symington, Chairman
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CJS-c

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INTERNATIONAL PRESS CONFERENCE

MANILA
MALACANAN PALACE

March 17, 1955

NEW YORK
WALDORF-ASTORIA

NATIONAL PLANNING ASSOCIATION - PHILIPPINE AMERICAN LIFE INSURANCE CO.

Previous to the attached "Press Question Period," the following addressed the International Press Conference:

FROM NEW YORK

Mr. Christian A. Sonne
Chairman, National Planning Association

Mr. Charles J. Symington
Chairman, Policy Committee, National Planning Association

Mr. William S. Youngman, Jr.
President, C. V. Starr & Co., Inc.

Brig. Gen. Carlos P. Romulo
Special Representative to the United States of the President of the
Philippine Republic.

FROM MANILA

President Ramon Magsaysay

Those participating in the "Question Period" were:

NEW YORK

Mr. Christian A. Sonne
Mr. Charles J. Symington
Mr. W. F. Bramstedt
President, California Texas Oil Co.
Mr. George F. James
Director, Standard Vacuum Oil Co.
Mr. John Lindeman, Moderator
Author of NPA Report on Philamlife

PRESS

Mr. Malcolm Muir, Jr., NEWSWEEK
Mr. Mark Stroock, TIME
Mr. W. W. Chaplin, NBC
Mr. Robert Gowe, ASSOCIATED PRESS
Mr. Gilmore Iden, U.S. NEWS AND
WORLD REPORT
Mr. James Partridge, LIFE ASSOC. NEWS
Mr. Saul Sanders, BUSINESS WEEK
Mr. Robert Mitchell, NATIONAL
UNDERWRITERS
Mr. Ralph Teatsorth, UNITED PRESS
Mr. Richard Lindabury, HERALD
TRIBUNE
Mr. William McGaffin, CHICAGO DAILY
NEWS

MANILA

President Ramon Magsaysay
Mr. Earl Carroll
President, Philippine American Life Insurance Co.
Mr. R. V. del Rosario
Vice President, Philippine American Life Insurance Co.

C. J. Symington: We (in New York) have established a panel of newspaper, magazine and radio representatives who are now in their places. They will ask the written questions which we have received. This panel will be conducted by John Lindeman, the author of the report being released tonight on the Philippine American Life Insurance Company of Manila. Now Mr. Lindeman will take over.

John Lindeman: Are you ready Manila? We have a group of press, radio and news magazine correspondents here. After I have introduced them, we will get on to the questions. First there is Mr. Malcolm Muir, Jr., of NEWSWEEK magazine. Next to him Mr. Mark Stroock of TIME magazine. Then there is Mr. W. W. Chaplin the well known NBC commentator, Robert Gowe of the ASSOCIATED PRESS and Gilmore Iden of U.S. NEWS AND WORLD REPORT. James Partridge of LIFE ASSOCIATION NEWS, Saul Sanders of BUSINESS WEEK, Robert Mitchell of NATIONAL UNDERWRITERS, Ralph Teatsorth of UNITED PRESS, Richard Lindabury of the HERALD TRIBUNE and William McGaffin, CHICAGO DAILY NEWS. Our first question will come from Mr. Muir of NEWSWEEK.

Malcolm Muir, Jr.:
NEWSWEEK Question to President Magsaysay

To what extent does the Hukbalahap movement threaten the security of American capital invested in the Philippines?

President
Magsaysay: The security of American capital invested here rests upon the stability of the Republic. Huks no longer present any serious threat to that stability.

Gilmore Iden :
U.S. NEWS AND
WORLD REPORT Question to President Magsaysay

Article Two of the Southeast Asia Collective Defense Treaty states that "the parties will develop their individual and collective capacity to prevent and counter subversive activities." How does the Philippines plan to implement this clause?

President:
Magsaysay Philippines' implementation of this phase of the Manila pact consists of a continuation of the methods we have already tested and proved successful; military measures to establish peace and security, plus social and economic measures to give our people the reality of democracy.

William McGaffin : Question to President Magsaysay
CHICAGO DAILY NEWS

Will further industrialization in the Philippines tend to remove the causes of Hukbalahap discontent?

President: Industrialization will help us to demonstrate a steadily rising standard of living which is the best answer to Communist lies.
Magsaysay

Manila: Question from Manila to Mr. Sonne

There are already a substantial number of American foreign investments in the Philippines that have proved profitable and many of them are in the process of re-investing for the purpose of further expansion. In the light of this experience, what is holding back others interested in coming to the Philippines?

Mr. Sonne: Generally speaking, an American figures that when he has invested some capital some years ago, he doesn't need the development at home. When it comes to new investments, there are two angles to it, one is what return he expects to get and the other is safety. Now in regard to return, there we must remember that unlike Britain and France in the old days which were very highly developed countries that couldn't expect much return on their capital at home, the United States is in a sense still a lesser developed country; that means that capital, still can yield satisfactory return. This is more the case in the United States in this last decade, where due to war, due to the fact that we helped foreign nations through Marshall Plans or otherwise, we did in a sense postpone improvement at home and so we have been going through a period in which capital can be used very constructively at home. I'm not talking here about capital that goes into government bonds, but capital that will go abroad which we here call venture capital. It is to be hoped that within a short time we will have caught up with all these delayed developments and that then there will be more of a chance of constructive development capital going abroad. That is, in so far as returns of capital is concerned. But in so far as safety is concerned, the essential thing is that from the average investors point of view conditions all the world over seem to be less and less secure. That is a thing which we cannot blame the Philippines or the United States for, that's a world condition and we can also only hope there that world conditions will become so stable that the last bulwark against sending large sums of capital abroad will disappear.

Robert Gowe :
ASSOCIATED PRESS

Question to President Magsaysay

If American private capital is invested in Philippine industry, will any of the goods produced from that investment flow into trade with Communist countries?

President:
Magsaysay

Our policy against trade with Communist areas has been consistent and well implemented.

Robert Mitchell:
NATIONAL UNDERWRITERS

Question to Mr. Carroll in Manila

Do the operations of Philamlife touch the lives of the poorer classes in the Philippines?

Mr. Carroll:

In our sales operations we seem to reach the poor as well as the rich and the rapidly increasing middle class. Our average policy is the equivalent of \$1,500 which isn't very much. We expect an increasing percentage to come from our low income group here in the Philippines, especially with the growing popularity of group insurance. In our investment operations, priority is given to those mortgage loans and industrial projects which involve new construction and therefore provide employment for labor. Our housing operations provide employment for labor both in construction and in manufacturing trades. But the houses when completed touch the poorer class only to the extent that they relieve pressure on housing facilities.

Ralph Teatsorth:
UNITED PRESS

Question to President Magsaysay

The flow of American private capital long-term investment abroad has been disappointingly small since the end of World War II. Major impediments to this flow have been the fears of our businessmen of expropriation, political instability, discrimination in tax and other matters, and inability to remit a reasonable return and to ultimately repatriate the capital invested. What assurances in these respects does your government plan to give the U. S. long-term investor in the Philippines?

President:
Magsaysay

These fears do not apply to the Philippines. American investors already established here have found that other obstacles are overcome as they arise. This administration is now making every effort consistent with the nation's economic security to establish, by legislation, the investment climate American investors seek for their capital.

Richard Lindabury:
HERALD TRIBUNE

Question to President Magsaysay

With many areas of the world actively seeking U. S. private investment and offering it special inducements, do you feel the Philippines offer comparable attractions?

- 4 -

President: We feel we offer superior attractions. For example, the
Magsaysay traditional friendship and cooperation between our peoples
and the great advantage of the wide-spread understanding
of the English language here.

W. W. Chaplin: Question to President Magsaysay
NATIONAL BROADCASTING
SYSTEM

Firstly, to what extent does your government think the
Philippines should become industrialized, secondly, what
new industries are most needed, thirdly, how much new
capital is needed for this?

President: In a developing economy no fixed limit can be set for the
Magsaysay extent of industrialization. As we modernize and diversify
our agricultural economy, we open new markets, and new
areas of industrialization will appear as logical outgrowths
of our expanding economy. Industries most needed are those
which create new wealth from latent resources and those
adding value to our traditional agricultural products.
The amount of new capital we can absorb and the rate of
absorption depends upon the trend of world-wide economic
conditions and can be estimated only as we proceed.

Manila: Question to Mr. Symington

American capital in the U. S. has found that money spent
on general scientific research is profitable in the long
range development of its investment. Is American capital
willing to carry this same practice into the Philippines?

C. J. Symington: Instead of answering that question myself, I'm going to
ask two important industrialists with us this evening to
answer it, as I think they are better qualified to do so.
I'm first going to ask Mr. Bramstedt, President of California
Texas Oil Company if he would like to answer that question,
on behalf of American industry.

Mr. Bramstedt: Indeed I would. It can be safely said that American capital
will continue to be most interested in investment possibil-
ities in the Philippines. New investors as well as the
American companies already active in the Philippines, may
be expected to be more than willing to carry out the
scientific research needed to make their operations in
the Philippines efficient and fully effective. They will
be seeking the best means of perfecting processes and
methods that will produce the greatest benefit to the
enterprises with which they are concerned and to the
Philippine economy.

C. J. Symington: Thank you Mr. Bramstedt. I would now like to ask Mr. George
James, Director of the Standard Vacuum Oil Co. if he also
would like to answer that question on behalf of his company.

Mr. James: I entirely concur in the remarks which Mr. Bramstedt has just made and I would like to add perhaps one further point. Many American business enterprises carried on in the Philippines, now receive the benefit of general scientific research conducted by their parent organizations in the United States. In addition to this immediate benefit, which flows through the business enterprise into the general economy of the country, the American investor who can look forward to a long period of productive activity will assuredly welcome the opportunity for scientific research within the Philippines on subjects of special interest to that country.

C. J. Symington: Thank you Mr. James and I hope these two very clear answers are satisfactory to Manila.

Saul Sanders:
BUSINESS WEEK Question to President Magsaysay

As industrialization in the Philippines progresses, what changes in Asian trade patterns do you foresee?

President:
Magsaysay By the reduction in cost of consumer goods and better strategic placement of our consumer market they should be considerably broadened.

Mark Stroock:
TIME Question to President Magsaysay

A proposal was recently advanced for the formation of an investment trust by small individual U. S. investors which would invest in long-term projects in Latin America. Would such an investment trust be welcome and find profitable opportunities in the Philippines?

President:
Magsaysay Such trust will be welcomed in the Philippines and we believe they would be profitable.

James Partridge:
LIFE ASSOCIATION
NEWS Question to Mr. Carroll:

What is the future of Life Insurance business in the Philippines expressed in terms of population insurable but still uninsured?

Mr. Carroll: Refers question to Mr. R. V. del Rosario, Executive Vice President, Philippine American Life Insurance Co.

Mr. del Rosario: The potential for the insurance business is tremendous here in the Philippines with only 2% of the population insured. The life companies have only scratched the surface. We feel that within 10 years or even less this percentage can be easily doubled. Our own plan calls for a 100% increase in insurance in force in 10 years or less and an equal increase in the number of policy holders. We believe that other insurance companies will be able to do the same.

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C. J. Symington:

We have now come to the end of the time allotted to us on this circuit, so we will have to conclude. May I again thank everyone, both here and in Manila, who headed these conferences, and all the technicians at both ends of the line who contributed to making this international hook-up possible. Thank you and good night to everyone in New York and good morning to everyone in Manila.

The New York Times

MARCH 27, 1955

YANKEE INSURANCE IN MANILA

The recently published report of the National Planning Association on the operations of the Philippine American Life Insurance Company shows dramatically that the operations of United States companies abroad can be both profitable and profoundly influential in building goodwill for this country. In fact, the experience of this concern would seem to prove that the greater the goodwill the sounder is the investment. That this demonstration is being made in the most sensitive and dangerous area for the peace of the world at the moment is especially significant.

The key to the company's success has been its conscious effort to aid the economic and social advancement of the Philippine people—to become a genuinely Philippine institution. While its original capital came from the United States, the company is a Philippine corporation subject to Philippine laws and almost exclusively staffed by Filipinos, whose pay and working conditions are exceptionally good.

The company's operations enhance Philippine welfare in two specially striking ways. It furnishes a much needed mechanism for the systematic savings of the population, and it invests a large proportion of the proceeds in projects both financially and humanly productive, such as modern low-rental housing developments.

This report is the third in a series of N. P. A. "case studies" of United States business performance abroad. They fill in the colorful details of a picture in biting contrast both to the caricature of American imperialism which the Communists have created and to the realities of Communist dealings with nations they control. These reports deserve wide reading, especially by business men and investors with interests overseas.

NEW YORK
Herald Tribune

MARCH 19, 1955

American Business Performance Abroad

The record of an American company in the Philippines is the subject of a new case study put out by the National Planning Association. The purpose of the N. P. A. studies is to show, by specific example, how private American investments can serve the interests both of foreign countries and of American investors. In this instance the Philippine American Life Insurance Co. (Philamlife) was selected as having attained a high degree of integration in the Philippine economy and having been widely accepted by the Philippine people as a contributor to the national welfare.

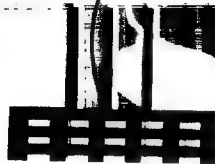
Philamlife, almost wholly owned by an American life insurance company, operates solely in the Philippines and employs, except in four executive posts, solely Filipinos. Its policy holders are largely Filipinos of medium income, most of them interested in life insurance as a method of saving. Its real estate investment program has provided housing for middle-income Filipino families and made a start on commercial-industrial building. The effect of these operations has been to encourage thrift and stimulate industrial activity without interfering with Philippine patterns of living.

How successful this program has been was clearly shown at an international press conference sponsored by the N. P. A. on Thursday evening. President Ramon Magsaysay, speaking by telephone from Manila, had warm praise for the existing pattern of Philippine-American economic co-operation and expressed the hope that it would be greatly enlarged. He is convinced that the Ameri-

can spirit of free enterprise, directed with economic statesmanship through foreign investment channels, can play a decisive role in the battle for freedom and democracy in Asia. By emphasizing the importance of mutual confidence in the relation between foreign countries and the American investor—underlined also by Gen. Carlos P. Romulo on Thursday—the N. P. A. is fostering precisely the sort of economic statesmanship that Mr. Magsaysay desires and the times demand.

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United States Business Performance Abroad



AMERICAN LIFE INSURANCE COMPANY

NATIONAL PLANNING ASSOCIATION

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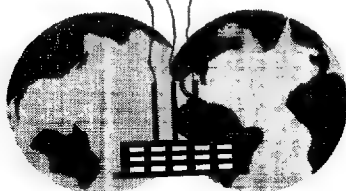
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*THE
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LIFE INSURANCE
COMPANY*

BY JOHN LINDEMAN
with the collaboration of
NATY OSORIO AGUINALDO



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THE PHILIPPINE AMERICAN LIFE INSURANCE COMPANY. March 1955. 94 pp. \$1.00

Printed by photo offset by
Carmelo & Bauermann, Inc., Manila, Philippines

Permission to quote is granted provided credit is given to the
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Approved For Release 2002/11/13 : CIA-RDP80B01676R001100080013-0



ACKNOWLEDGMENT

This Case Study was made possible in part by funds granted by the Carnegie Corporation of New York and by the John Hay Whitney Foundation. These foundations are not, however, authors, owners, publishers, or proprietors of this publication, and are not to be understood as approving by virtue of their grants any of the statements made or views expressed therein.



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**MALACANANG
MANILA**

September 9, 1954

Dear Mr. Symington:

I am happy to learn of the study that the National Planning Association has been making of The Philippine American Life Insurance Company. This company has dramatically and profoundly demonstrated how a foreign-owned company in the Philippines can advance its own interests by sincerely identifying its objectives with the aspirations of the Filipino people and contributing its share to national progress and welfare.

We in the Philippines are keenly aware of the material benefits private foreign capital has brought and will bring to our country. We are rebuilding and gaining new strength with the valuable assistance of foreign investments, largely American. We know that our young country vitally needs increasingly greater amounts of this type of investment to develop our resources and train our people in the modern skills so necessary to the improvement of our standard of life.

The NPA study of the operations of The Philippine American Life Insurance Company will be useful to other American companies who may be interested in investing in this part of the world. It will also be of great interest to people outside the United States who could benefit, as we have, from the operation of progressive American enterprises in their countries.

Sincerely yours,

Mr. Charles J. Symington
National Planning Association
Washington, D. C.
U. S. A.

PREAMBLE
TO
THE PHILIPPINE AMERICAN LIFE
INSURANCE COMPANY

THE THIRD STUDY in this series on United States business performance abroad takes us to the Far East and happily to the Republic of the Philippines, that young democracy which the United States helped to launch and of which this country is justifiably proud.

The Philippines have had a quite different political and social history than their Asian neighbors. Several centuries of Spanish rule and a half century of close association with the United States have given a western approach to the working out of their economic and social development. The Spanish christianized the Filipino and firmly implanted the Catholic Church as the dominant religious and cultural influence in the islands. Under the protection of the United States came the opening up of the avenues of trade and industry with attendant individual opportunities to acquire industrial and professional skills.

The land, the family, and religious faith are the three major forces that guide the Filipino in his rational search for an improved standard of living. In contrast to so many underdeveloped countries, the combination of these vital forces has not created an extreme nationalistic credo directed to the false premise that the national welfare would best be served by driving out the foreigner and the rejection of previous ideological and political influences. The Filipino reaches out for, and welcomes, foreign technology, investment funds, and business enterprises which help him attain benefits for the family, the community, and the nation as a whole.

Personal savings are a most important factor in a nation's internal economic development, and financial institutions that promote personal savings and invest them in the country's economy are particularly useful agencies. The Philippine American Life Insurance Company is such an institution. The role of this progressive life insurance company in promoting capital formation and in making direct investments in the well-being of the host country made it an excellent case for this series of studies of U.S. business performance abroad. In

selecting this company, however, we are nonetheless mindful that many other United States owned and managed enterprises in the Republic of the Philippines would have demonstrated the principles of our series equally as well.

To say that Philamlife pioneered this or that idea is not the point of this study. Undoubtedly, the passage of the Philippine Insurance Act in 1947 shaped many of the Philamlife policies and achievements which are pointed to with pride by company officials and employees. The important point is that Philamlife is making the most out of the legal and economic framework in which it must operate. Certainly the company has recognized the basic needs of the Filipino and has used drive and imagination in fostering, directly or indirectly through its investment policies, enterprises that contribute to the economic development, and housing projects that raise the standard of living of the urban Filipino.

An important contribution to the success of Philamlife is the unusual prestige it enjoys due to its Chairman, Paul V. McNutt, the popular and successful U.S. High Commissioner to the Philippines in the prewar years, and later the first U.S. Ambassador. Mr. McNutt had long been identified with those who worked for a realization of the legitimate political, economic, and social aspirations of the Filipinos. It is only a natural result that he is held in high personal esteem by Filipinos of all ranks in life.

Frequently the telling of the business success of financial institutions is by the very nature of their operations likely to be on the dull side. The Philamlife story, as told by John Lindeman, is far from prosaic despite the overtones inevitably accompanying the description of a job very well done indeed. Mrs. Naty Osorio Aguinaldo, Dean of the College of Education of the Philippine Women's University, gave most valuable collaboration to Mr. Lindeman in the preparation of this study.

Eugene W. Burgess

EUGENE W. BURGESS
Director of Research

December 1954

★
*THE PHILIPPINE AMERICAN
LIFE INSURANCE COMPANY*

by John Lindeman
with the collaboration of
Naty Osorio Aguinaldo

★

I.

Introduction

THE NEW REPUBLIC OF THE PHILIPPINES has been called the United States show window of democracy for the Orient.

Most of us are proud of our show window. To us it is living proof that the United States has not been an imperialist power. From the very beginning in the Philippines we made it clear that our mission there was to build up the political, economic, and social structure of the Islands to the point that the Filipinos could stand on their own in the modern world — and from the very beginning we demonstrated our sincerity in concrete ways, as well as in words. President McKinley's promises of occupation in the interest of the Filipinos and not of the Americans were followed by a migration to the Philippines of teachers and doctors by the boatload, and not of carpetbaggers. Our emigrants went out into the provinces and into the "native" districts around Manila as pioneers, not to make their fortunes but to start the long, long process of educating a people handicapped by three hundred years of Span-

ish colonial rule in the skills and the responsibilities needed for independence in the modern world. As early as 1916 our Congress promised independence to the Philippines as soon as the Filipinos could establish a stable government, and in 1934 we jointly agreed on Commonwealth status looking forward to complete independence by 1946. In spite of the disruptions created by the second World War, we kept our word, and on July 4, 1946, we formally gave up our claim to the Philippines, leaving a new nation behind us.

The Philippines were our protege. The Republic of the Philippines became our grown up son. We were proud of the way we had raised the child, and we were anxious to do anything we could to make him a success in manhood. For the Philippine Republic effectively gives the lie to those who would like to make the world believe that we seek not peace, but domination; and, in our opinion, our concrete actions in the Philippines should demonstrate to all of South and Southeast Asia that our friendship is traditionally offered with sincerity, and with a genuine interest in the independence and well-being of the people to whom we extend it.

This is the way *we* see it, from the standpoint of the people who had a big hand in arranging the show window and who, therefore, are apt to gloss over all but the most pleasing of the effects that our efforts have created. But those who are looking through the glass from the other direction — as observers, and not as past participants — may not see it exactly that way. The most important of these observers are the other nations of Southeast and South Asia. Most of them, like the Philippines, have recently attained independence from Western colonial rule, and they don't worry too much about the different ways in which it was attained. That which is good in the Philippines, they will reason, is because of independence. That which is bad is due to the many years of colonialism (Spanish? American? What difference does it make? Except that the American was the most recent.) And furthermore, they say, American domination in the Philippines has ceased only in a formal way.

To a certain extent this is true. We clearly have more influence in the Philippines than has any other country, and the Filipinos look to us more than they do to anyone else. Our

trade is still dominant in the Philippines, and it is likely to remain dominant for a good many years. We are the best customer for coconut products, sugar, and abaca. We are the principal suppliers of consumer goods and capital goods. The "Coke" dispenser is as much in evidence in Manila as it is in New York; soap operas straight out of Cincinnati and Jersey City fill up the morning time on the radio; most of the cars come from Detroit, and they run on American gas. With minor differences, the Philippine Armed Forces even wear insignia just like ours.

More fundamentally, some of the more basic institutions of the new Republic are patterned after ours. The constitution is very much like ours, though modified to fit Filipino needs; the separation of powers among the executive, legislative, and judicial branches of government, elections for a fixed term, the existence of a detailed Bill of Rights, all are products of the American influence although in operation there are some significant differences in the relation of the government to the individual and to his property. Similarly, the educational system reflects organization and practices in the United States. And English is the universal language.

Most of this heavily weighted American influence is a natural consequence of fifty years of sovereignty over the islands which ended in a friendly and mutually satisfactory way. It is only to be expected that strong diplomatic, military, trade, and business ties would persist beyond the colonial period and into the period of Philippine independence. But, natural or not, the persistence of these ties means that, in the eyes of the Filipinos and of the other peoples of Asia, the influence of the United States on major trends of Philippine development did not end in 1946, when Philippine independence became a fact.

Thus, we cannot rest on our laurels. It is not enough that we have already demonstrated to ourselves that when in the position of leading people less advanced economically than ourselves, we do try to lead them to self-respecting and self-supporting independence. Because, for so many of the observers, the demonstration has not yet been completed.

Although our government-to-government relations are exceptionally cordial and friendly, they are nevertheless those of one sovereign nation towards another. Consequently, the direct actions of the United States Government with respect to the Philippines are of an entirely different order of effectiveness than they once were.

For these reasons it is especially interesting and pertinent to look into the way in which private American enterprises conduct themselves in the Philippines, because so very much depends upon the way in which their conduct is accepted and interpreted not only by the people of the Philippines, but by the people of Asia in general.

To anticipate what follows one gets the distinct impression that, with some inevitable exceptions, American enterprises in the Philippines conduct themselves in a way which corroborates the assumptions of this series of Case Studies. That is, in the normal course of conducting their affairs along sound business lines, they are making a distinct and positive contribution to the economic and social progress of the Philippines. There is evidence that this characteristic of American-owned enterprises in the Philippines is sufficiently widespread so that the conclusions of this Case Study — which deals in detail only with The Philippine American Life Insurance Company, a company that rates high on practically all counts, — can also be applied with only minor modifications or added emphasis to most of the other American companies with substantial operations in the islands, and which are United States owned and operated.

II.

Perspective on the Philippines

TO CONSIDER the contribution being made to the Philippines by The Philippine American Life Insurance Company, it is necessary first to get a quick perspective on the Republic of the Philippines as it is today — and especially on those aspects of Philippine problems which a life insurance company could, within reason, be expected to affect in one way or another.

The generalizations that are usually applied to ex-colonial countries today, and especially to those in South and Southeast Asia — can also be applied to the Philippines. Most of the people are poor; nationalism is a potent political force; there are not enough people with managerial and executive ability; and the popular demand for rapid and concrete improvement is strong. All of these things can be said about India and Indonesia, about Pakistan, Burma, and Ceylon — and about the Philippines.

In some respects this generalization is moderated in the Philippines. The people, though poor, are not among the poorest; in particular, the tropical abundance of fruit, fish, and shelter material keeps many of them from abject want. Nationalism clearly does not reach the extreme form that it does in some other Asiatic countries largely because both official and individual Filipino attitudes towards America, the ex-colonial power, are genuinely friendly. The shortage of managerial and executive skills is less severe than elsewhere. But on the last point — an impatience to get results quickly — there is no moderation at all. Especially now, under the new government of President Magsaysay, the Filipinos want to go places fast, and the American businessman who wants to make a success in the Philippines must go along with them — or, better still, lead the way.

Where they want to go, of course, is in the direction of a higher standard of living, and away from all vestiges of colonial dependence.

The pattern of progress so far has been the not unfamiliar one of immediate postwar recovery on a shaky foundation, followed by a financial crisis (1949-50 in the Philippines), which in turn led to the sobering realization that sound and substantial progress requires a long-range look at economic policies and programs, and that it also requires the will and the means to take the necessary actions. There is no need here to give the details of the postwar experience. It is more important to see how the Filipinos evaluate their *present* problems, and the Magsaysay regime's chances of finding some sort of solution to them.

A FILIPINO "SPOKESMAN" LOOKS AT CURRENT PROBLEMS

SUPPOSE YOU WERE ABLE to talk to a good cross section of well-informed Filipinos: business and professional men, government leaders, social scientists. And suppose you asked them to give you a rundown of the current problems of the Philippines. The answers you would get would not, of course, be entirely objective, but they would be especially revealing and pertinent because they would show a lot about the Filipinos' own aspirations. This is one of the things that anyone doing business in the Philippines has to know about.

Suppose you found such men and asked them such a question. The composite answer, which we can attribute here to an imaginary Filipino "spokesman," would go somewhat as follows:

"First you must remember that the Philippines are predominately agricultural. The casual visitor to Manila is apt to miss this point because Manila is so strictly urban and its population is so dense. But only 10 percent of our people live in and around Manila, and we have only two or three other population centers that can really be called cities. Seventy-five percent of our population is truly rural, and 70 percent of our labor force is engaged in some sort of agricultural activities. Most of the social and economic problems facing Magsaysay

and his government are basically rural and agricultural problems. They have their roots in centuries of tradition, in established land tenure systems, and in deep-seated habits of farming techniques. The problems are old ones. Only the determination to do something about them is new.

"No, wait a minute, that wasn't fair of me. There have certainly been determined efforts to cope with these problems in the past, and to some extent they have succeeded. The really new thing this time is that for once the great majority of the people think that in fact conditions will be considerably better for them, and in the near future. This has me worried, because I think it would be tragic if the people began to expect the impossible, and then were disappointed. We will do the best that we can, but none of these basic problems can be solved overnight."

AGRICULTURE, HEALTH, AND EDUCATION

"I'LL COME BACK to this point later. But first, let me give you a quick outline of the problems, taking up agriculture first.

"Most of our farms are small — less than 10 acres on the average — and far too many people have to try to make a living from each one. The average rural household has six people; six mouths is a lot to feed from 10 acres. Also, as you can well imagine, 10 acres doesn't keep many people very busy; consequently we have a lot of rural unemployment. Estimates go up as high as 25 and 30 percent. As for underemployment, I saw a statement a few days ago, which I believe, that farmers are gainfully employed only between 175 and 200 days a year, and that rural nonfarmers get an annual average of 200 to 250 days of work. This, of course, adds up to a very low family income — with the frustration of wanting to make more money and of having time on your hands but nothing profitable to do with it.

"Except in the case of some of the commercial crops, such as sugar cane, copra, and abaca, our farming methods are not as modern as they ought to be. For example, commercial fertilizer was hardly used at all before the war; also, it is com-

mon practice to thresh rice with human or carabao feet, or both, and to winnow it in the wind. You lose a lot of rice that way. Double cropping — or planting a supplementary crop after the rice harvest in regions where double cropping is not possible — is still infrequent. We don't use the new insecticides and weedkillers as much as we should. I would say conservatively that our technicians (who have learned very much from you Americans) know of ways to get much more out of existing farms with very little more work and very little additional capital. They are making headway in spreading their knowledge, but it is a slow process, because they have so very many people to reach, and they have so much tradition to combat.

"Also, I'm afraid, in many cases they have to combat the farmers' lack of interest in improving the output of the land under present conditions. This is because of the land tenure system in some parts of the islands. For the Philippines as a whole, tenants and agricultural laborers account for 70 percent of the people engaged in agriculture — about 40 percent tenants and 30 percent laborers. Thus nearly three out of every four people who make their living from the land own none of it. The laborers work for wages, and the tenants work their way deeper into debt. It's little wonder that they are not too enthusiastic about advanced farming methods.

"Tenancy, of course, is a very complicated thing. Sometimes the system is good and fair. But in some cases it is nothing more than debt peonage, and we have to bear in mind constantly the fact that in the areas of heaviest tenancy, there is also the greatest incidence of dissatisfaction which the Communists so well exploit. For example, in Pampanga Province in Central Luzon — where the present Huk strongholds are — 88 percent of the farms are run by tenants.

"There are some more down-to-earth things you have to realize, too. For example, the transportation system in the countryside is far from adequate. There is at least one agricultural expert in Manila who will advise you and your FOA Mission to stop trying to increase agricultural output until farm-to-market roads are built where they are needed; according to him, the increased production will simply rot on the

farms for lack of a way to get it to market. I think he exaggerates, but it does give you something to think about.

"Health is a problem too. In spite of the improvements in the past few years, we still have to rely on herb doctors and midwives for most of the population; the TB rate is high; around three-fourths of our children have intestinal parasites.

"And education: Here again there has been improvement, but still 40 percent of our people over the age of ten can neither read or write, and school attendance beyond the fourth grade is still uncommon in the rural areas.

"Finally, take sanitation. Over half of the total population of the country does not have safe water or sanitary sewage disposal. Do you know, I think Magsaysay's greatest appeal in the campaign was his concern over water supply to the *barrios* — our rural villages — and his pledge to put the government behind a really widespread program to drill artesian wells all over the islands."

At this point, if he were interrupted with the observation that the picture, though depressing, is no worse than in any country in Asia, our composite spokesman would probably frown in quick annoyance and give, for a Filipino, a fairly sharp answer:

"We aren't talking about just any country in Asia," he would say. "We're talking about the Philippines." Then he would catch himself and explain, "Excuse me, I didn't mean to be impolite. But you must realize that after fifty years of association with the Americans, we aren't satisfied just to keep up with our neighbors; and considering both our Spanish and American heritage, we should not be judged by our neighbors' standards. We want the fullness of life that we know we can get from our resources, and that's what I'm going to talk about in just a minute, after I've made one or two more points about our present troubles."

URBAN POPULATION PRESSURES

"THE FIRST ADDITIONAL POINT I want to make is that all our misery and trouble is not limited to the countryside. In Manila in particular we have an economic

and social problem of the first magnitude. I'm speaking of the problem of urban overpopulation. Right here in the heart of the city you will find living conditions as wretched as any in the civilized world — whole families living in patched up packing boxes, and dozens of families living on top of one another in the ruins of buildings that were all but completely destroyed towards the end of the war. Most of these people came to Manila in the first place because they thought continued living in the rural areas would be even more unbearable. But anyway, here they are, and they are a problem that the city has to deal with."

ECONOMIC OVERSPECIALIZATION

"MY SECOND ADDITIONAL POINT deals with the way our economy has grown. As you know, we developed in a typical colonial pattern. We produced subsistence food-stuffs for ourselves, and we relied on you for imports of all the other things we needed: the amenities of life beyond the rice, fish, and fruit that we could provide for ourselves; our machinery and other capital goods; our clothing — almost everything. We are still very much in that position. That is, about 70 percent of our exports are to the United States, and they are concentrated in the three main raw materials of copra, sugar, and abaca. And most of our imports come from the States. If our markets there should dry up even a little bit, then we would have no way to buy the many things we need that we don't now make for ourselves. We are very much concerned about this, particularly since we believe that our new independence puts on us the responsibility to live without special favors from you."

SOME GOOD AND BAD POINTS

"NOW I WOULD FIRST like to turn to more pleasant things. We are somehow blessed with vast resources that have hardly been tapped. There are rich public lands potentially suitable for agriculture, *equal to twice the area now in farmland*. Very few countries in Asia have such a potential for agricultural expansion. Our natural new growth

of timber is twice the annual cut. We have hardly begun to exploit our mineral resources, iron ore in particular, and there is more than a suspicion that we have oil somewhere in the islands. As I said before, the application of known technology to our land now under cultivation can greatly increase our annual production of food and other agricultural goods. Thus we have the physical assets that we need to improve ourselves, provided, of course, that we have the time, patience, and will power to plow back capital into developing them.

"There is another important asset. It is our people. Although we are from mixed stock, we have come to share the same cultural heritage — a mixture of Spanish-Catholic, native Filipino, and American attributes, and we like to think that we have saved out the best of all of them. Our family affections and loyalties are deep and sincere, which gives us a real foundation for a stable society. Also — though it may be immodest to say so — we are generally considered to be pretty intelligent. A while ago I mentioned the fact that formal education is not what we would like it to be, but those of us who have had the chance to get a good education have usually tried to make the most of it, and the others compensate with native wit for their lack of education much better than people do in many other countries. And finally, we are happy people. We like to get along with one another, to sing, and dance, and have a good time. We have a phrase in our Tagalog dialect: *bahala na*. It's a synthesis of the Spanish *mañana* and the fatalism of the Orient, and what it really means is: 'Why should I worry about tomorrow when today is so pleasant and tomorrow hasn't dawned?' *Bahala na* is better than ulcers.

"On the other hand, we have some faults, too."

Here our imaginary Filipino will pause and appraise you carefully. If he pursues this point, it will be with some reluctance:

"I don't like to talk about our faults because, among other reasons, it is too easy to appear to be unfairly critical. But in order to round out the picture, I think I ought to mention three of our characteristics which, to some extent, will make our progress more difficult than it otherwise would be.

"The first fault, possibly more a product of our climate than it is of any natural trait of the people, is that we are not inclined to work at our jobs as hard or with as much concentration as people who live in more temperate regions. The Philippines, after all, is a tropical country, and the climate is anything but invigorating. In one respect this is not too bad, because the climate does produce mangoes, papaya, coconuts, fish, bamboo, nipa, and other things in abundance. Nevertheless, the road we want to follow calls for us to compete successfully with people who do not have the handicap of this enervating climate, and this means that we will either have to lower our sights or in some way change our working habits. Long siestas and rapid economic progress just don't go together.

"Secondly, many of us apparently still retain one of the least desirable traits of colonial people, even after we have attained our independence. I refer to the attitude of 'looking up' to Americans and Europeans simply because they are not Filipinos. There is no rational basis for this, and emotionally it is difficult to explain, too. Goodness knows that we deeply resent the corresponding attitude of those Americans and Europeans who patronize us by treating us in the traditional colonial way; but in spite of this I find by observation that, for example, many Filipinos in business are responsive to suggestions made by an American or a European while at the same time they may resent the same suggestion coming from another Filipino, no matter what his qualifications. A social psychologist might find this to be interesting, but I think it is disturbing. We must develop our own leadership, and, of course, a real confidence in that leadership based on respect among the people for the outstanding abilities that many of us have.

"And there is one final fault that is relevant to the question we are discussing. We are not noted for being thrifty. On the contrary, our people have such a deep sense of family obligations and prize their reputation for hospitality and friendliness so much that they frequently spend their way deeply into debt so that they can do their part for the family and

also hold up their end at *fiesta* time. This is true even among the very poorest. Somehow we must learn thrift.

"Now, these are the highlights of our situation. What are we going to do about it? I am going to summarize very briefly the major steps that we have to take, but don't, please think that I am putting them in order of importance or in order of time priority. As you will see, we have to move forward along the whole front at once."

IMPROVEMENT OF BASIC CONDITIONS

"FIRST, WE HAVE TO IMPROVE the economic and social conditions in the barrios. This will call for a tremendous amount of capital investment in roads; irrigation systems; sanitation, including safe water; schools, hospitals and so on. Much of this will simply have to be done by the government, and we will have to create the necessary savings through taxation. However, a good bit can be done by the barrio people as community projects with only a few trained engineers and a small amount of equipment being furnished by the government. Fortunately we have a strong tradition of community participation in community projects, and therefore we can probably count on a good deal of real social capital formation coming out of the contributed labor of our people — labor that would otherwise be lost forever. Our government is moving ahead on these projects, and is emphasizing the need for 'self-help' at the community level. One big facet of the current rural program is the opening of new lands. With the help of your FOA funds and experts we are now putting in main roads through the heart of Mindanao, our southernmost island, which is potentially very rich and is settled very sparsely. This one project will eventually open up 2,500,000 acres, enough for between two and three hundred thousand families. We are opening up smaller tracts of public lands elsewhere in the islands, and are helping new settlers to get started on them. We are doing our utmost to deal with the tenancy problem. We are setting up institutions to provide agricultural credit for productive purposes. And, as I said before, we are emphasizing self-help.

"I can't begin to mention all of the details of our rural program — which, incidentally, has been going on for some time. The main point I want to make is this: If the people are convinced that the government's program is vigorous, honestly administered, and strictly in their interest, then they will be more willing than ever to put their own labor into community projects. This sort of grass-roots participation is absolutely essential if we are to make a lasting improvement, and I think we will get it."

DIVERSIFICATION OF THE ECONOMY

"SECOND, WE HAVE TO DIVERSIFY our economic activity. This is for two reasons. Through diversification, and especially through encouraging the development of new light industries, we can create better employment opportunities and relieve somewhat the present heavy dependence of our people on employment in agriculture. Also, diversification will help to reduce our dependence on the outside world for so many of the things we need. So, we are encouraging the growth of our present industries and the establishment of new ones in the Philippines. We are relying on private enterprise for this part of the program, but we are willing to give private enterprise a boost by making tax concessions for essential industries and by quite frankly using our exchange control system to protect our industries from foreign competition, at least while they are growing up. Now, I know that this may run counter to some of your theories about world economic development, but to be honest about it, we are not nearly as much interested in theories of worldwide development as we are in the immediate problems that we see right here at home. I suspect that we are very much like other people in this regard, including, if I may say so, you Americans, when the chips are down. Anyway, you can talk all you want to about the international division of labor and the doctrine of comparative costs, and you will not make much impression on us. The thing we see is that we have been exporting raw materials and importing finished products—which means, of course, that we are importing your labor. And that

doesn't make sense to us when we have so much labor of our own.

"So, we are encouraging industrial development. It is our intention to see to it that industry develops efficiently, and that it can eventually stand up against competition of imports. I can only hope that we will be successful in this. We have to make sure that our people have access to the latest equipment, and that they know about new techniques. We have to get them trained in modern management methods. And we have to see to it that they are exposed to the stimulating effects of competition, both within the country and from outside. This will not be easy."

BETTER OPPORTUNITIES FOR FILIPINOS

"FINALLY, WE FILIPINOS INTEND to give ourselves a break. It may sound odd to you, when you know that we Filipinos make up the overwhelming majority of our population, that we sometimes feel like outsiders in our own economy. But we do. So many of our big enterprises — agricultural as well as others — are owned and run by Americans and Europeans. And our internal trade, plus much of our import business, is dominated by Chinese who are not citizens. We resent this. Many of us believe that this is in part a normal outgrowth of our ex-colonial status, plus the merchandising genius that the Chinese people show everywhere. But some Filipinos see in it a dark Wall Street plot supplemented by the machinations of the 'Chinese interests', both designed to exploit the Filipinos. I happen to think this is nonsense. But the emotional anti-foreigner attitude is so strong that we all have to take notice of it. I think that the way to deal with it is to keep open new opportunities for Filipinos (and perhaps give them preference) while at the same time doing everything possible to train Filipino leaders in every field."

IN SUMMARY

"Now, to SUM UP. We have tough problems, but they can be solved. What we need most are:

- * An intelligent, and intelligently administered, government program aimed directly at the main problem.

We already have this in outline form, and the details will be forthcoming soon.

- Capital. And then more capital. We must exploit every possible opportunity to increase savings, to create new forms of savings, and to channel them into the kinds of things that make for progress.
- Trained leadership, especially in business. We have to develop native Filipino executive and managerial talent.
- Patience. Above all, patience. We simply cannot bring our country up to where we think it ought to be in a matter of months. So we must be willing to look to the long-term future for our most important results. In the meantime, though, we should show good interim results, not just for the purpose of getting immediate improvement, but also in order to be able to demonstrate progress. With such a demonstration, patience will be easier to come by."

This is the sort of atmosphere in which the American businessman in the Philippines will find himself as he tries to gear his business methods to the temper of the people he has to deal with. They feel that years of progress have passed them by, that they have the natural resources and the inherent capabilities to improve themselves considerably, that they have to work hard and intelligently to make the best of those potentialities, and that they must be patient while at the same time they are making progress. If he wants to prosper in this atmosphere, the American businessman will have to adjust himself and his operations to it.

The problem might also be approached from another angle. The businessman has now asked, where do the Filipinos want to go and how do they expect to get there? From the answer he can, within the limits of his business judgment, adjust his operations to meet the Filipinos' aspirations. But he can also ask: If an American-owned company in the Philippines is to make a significant contribution to the economic and social progress of the islands, what characteristics would it have?

To get an answer to this question, a special survey was made for this Case Study by the Business Writers' Association of the Philippines (The Association's summary report is

given in full in the Appendix, page 70). This survey was not a "man on the street" opinion poll, but rather a survey of the opinions of a carefully selected group of leaders in the Philippines — a group selected for their knowledge of public affairs, for their wide representation of different interests, and, it must be admitted, for their accessibility during the limited time available for the survey. Objectivity in the survey was made more certain by the promise that the opinions of individual respondents would not be made public.

Very unexpectedly, not a single one of the respondents suggested that a necessary characteristic of a "good" American firm should be that it bring capital into the country — although, of course, no one suggested that this would be a bad characteristic. The emphasis, instead of being on the importation of capital, was on the willingness and ability of the American firm to assist in the development of Philippine resources for the ultimate good of the Philippines. The most frequently mentioned characteristics were that an American firm that was truly contributing to Philippine progress would share know-how, give advancement opportunities, and afford training; be fair to labor, pay better wages, afford maximum employment to Filipinos, and improve living conditions.

Next, there was a group of characteristics such as a willingness to make long-term investments and not run away with quick profits, a sympathy for Filipino aspirations for economic independence, and a general accommodation to the economic pattern which the Filipinos set for themselves as leading towards the better life that they want. There was also some emphasis on the willingness of the American firm to share corporate ownership, as well as managerial responsibility, with Filipinos.

What the response to this survey reveals is a feeling on the part of the leaders in the Philippines that what they need most is a good chance to do for themselves, and an implied faith that if they get that chance they will do all right.

III.

Philamlife — History

WITH THIS BACKGROUND of problems, an outline of a general program to meet them, and an idea about what Filipinos themselves think is good for them, let us turn now to The Philippine American Life Insurance Company — which we will henceforth call “Philamlife,” a name that its agents and its advertising have made familiar throughout the Philippines. How does its performance rate against the standards which are implicitly required by conditions in the Philippines? This and the next three chapters, which deal respectively with the company’s history, its sales, its investments, and its other activities, are designed to provide an answer to this question.

But before going on, we might say here that Philamlife is doing very well. In the first place, it is successful in the narrow, but very important sense, that it is making money, and its prospects are good for making more. Yet at the same time it is performing a community service that is a source of pride to everyone connected with the company. There is more than a suspicion that these two measures of success are connected, that people and corporations are more successful in the narrow “business” sense when they are also successful in advancing the community to which they belong.

Philamlife is a company of exuberant superlatives. It confidently claims at least the following:

- In business written, business in force, assets, and investments, it is the fastest growing life insurance company in the world.
- It has built the largest agency staff that any new life insurance company has ever built in its first five years.
- It has pioneered in the Philippines in group life insurance and in group surgical and hospitalization insurance.
- It has pioneered in developing an investment program accounting for a very large proportion of its total as-

sets which involves, from the outset, active company participation in the management of investment properties.

- Its planned home office building, according to company executives, is going to be the biggest, best, and most modern in the Philippines — and will be the largest single construction project ever undertaken by a private company in the Philippines.
- Its president is the only man to have been named "Insurance Man of the Year" of the Philippines for two separate years; and later he was named "Businessman of the Year," and became an honorary Sultan of Cotabato.
- The company even has an auditing, billing, and tabulating machine installation which it carefully describes as one which is thought by some to be the largest installation of its kind in the Far East.

This is a company that aims to lead the field in anything that it undertakes. Whether it actually does in every case is something that is politely debated or challenged, especially by competitors. But it is generally agreed that even if in one or two matters the company's enthusiasm for hanging up new records outruns the facts, it nevertheless has earned its full share of superlatives, and more.

On one point there can be no doubt at all: Philamlife's growth has been phenomenal, and it is clearly predominant today as the biggest and fastest moving life insurance company in the Philippines. Starting from scratch in 1947, by the end of 1953 it had 120,000 policies in good standing, with nearly 350 million pesos of insurance in force.¹ This was about half of the total number of policyholders in the entire Philippines and about 40 percent of the total business in force. The next largest active company wrote 31 million pesos of new business in 1952, the last year for which all figures are available, compared with Philamlife's 91 million.

It is accurate but somewhat misleading to say that Philamlife started from scratch in 1947. Actually, in all but the most formal and legal sense, Philamlife is the successor com-

¹ To convert pesos into dollars, divide by two. The peso is worth 50¢.

pany in the Philippines to the United States Life Insurance Company of New York, and when it started business in 1947, it acquired U.S. Life's considerable sales force. A going sales force is an asset which few "new" companies enjoy.

U.S. Life at that time, like Philamlife at present, was a member of one of the C. V. Starr insurance groups (see Appendix, page 75). It had done business in the Philippines for a number of years before the war, and it was the first company to resume operations in the Philippines after the Japanese had been driven out. This was in July 1945, before the Pacific war had ended. The climate in the Philippines at that time was exceptionally favorable for the sale of life insurance: money was easy because of large United States armed forces and war-damage disbursements in the islands; the community was insurance conscious because of the payments made to beneficiaries of Filipinos killed during the war; and (perhaps most important of all) there was no competition of any consequence. The other major North American companies, for one reason or another, did not actively start their postwar operations until much later. And the purely Philippine companies, which had been forced to continue their business on a very shaky basis during the Japanese occupation, were not financially able to resume operations until the middle of 1946.

U.S. Life moved into this open field, with the vigor and aggressiveness which has continued to characterize Philamlife. Its first order of business was to organize a sales force, and since there were no other life insurance companies operating, the company was able to recruit some of the outstanding life insurance salesmen in the islands.

By and large, the first postwar agency managers were men who had previously been with affiliated or predecessor companies, but U.S. Life did not hesitate to take men who had previously made good records with competitors. An outstanding example is Philamlife's present president, whose prewar experience had been with Philamlife's principal competitor; he took over direction of the U.S. Life Philippines office in early 1946. More than anyone else this one man has been responsible for giving his organization its distinctive character: a fast-moving, enthusiastic, and intensely loyal group primarily

oriented towards sales, and supported by actuarial, underwriting, and investment policies that are sound and responsive to the needs of the times.

The U.S. Life operation was immediately successful. By the end of 1946, for example, more than 100 million pesos of new business had been written. It was, in every sense, a thriving operation. Nevertheless, in early 1947, it was decided by the Starr interests to stop the U.S. Life operation in the Philippines and to start an entirely new company, incorporated under Philippine laws, doing its business and making its investments almost exclusively in the Philippines.

In retrospect this turned out to be a wise decision, but at the time it puzzled many both inside the company and out. There was no clear-cut and obvious reason for it evident to the outside observer, and even now it is difficult to reconstruct the full line of reasoning that led to it. It appears, however, that the following considerations heavily influenced the management to reach the conclusion that they should start a new company:

- There was in the Philippines at the time a clearly perceptible spirit of nationalism which was almost inevitably destined to increase in intensity. In the short run, this meant that Filipino companies would have greater public acceptance than enterprises doing business as foreign corporations, even though the foreign companies might be owned and managed by well-meaning Americans. And in the long run, unless something happened to reverse the nationalistic trend, it meant that restrictions against foreign enterprises would become increasingly onerous. (Of course, if something did happen to check it, it would make no difference: A Filipino company would have no less than the privileges of an American one.)
- The U.S. Life Insurance Company was licensed in New York, and was doing by far the bulk of its business in the United States. From the standpoint of the Starr interests, this was doubly disadvantageous. Almost all of the other Starr insurance operations were outside the United States. With those foreign operations the Starr management had to think and act in terms of foreign, not domestic, insurance laws and practices. On the other hand, the New York State Insurance Superintend-

ent has to think and act primarily in terms of New York State laws and practices. This meant that on a number of minor points, U.S. Life's operations in the Philippines were hampered by the necessity of conforming to the New York State regulations. The Starr interests found this to be a competitive handicap in foreign territory.

- In 1947, there were no exchange controls in the Philippines, and it was the general practice of American and other foreign life insurance companies to make their investments largely at home. In effect this meant that most of the U.S. Life premium income from the Philippines became a capital export from the Philippines to the United States. From the standpoint of the Philippines this made little sense, and the Starr management realized that sooner or later it would be stopped by government action, as indeed it was in December 1949. This must have had considerable influence on the major decision — namely, to make investments in the Philippines commensurate with the business being done there. Theoretically, of course, a policy of this sort could have been carried out by U.S. Life without the formation of a new company, but this would still have left the Philippine operations subject to New York State law and regulations.
- Finally, the management evidently held the sincere belief that the ultimate success of an American company operating abroad depends to a very large extent on how well it integrates its own policies with the interests and aspirations of the host country. For example, if rather substantial capital export from the Philippines to the United States was bad for the Philippine economy, then it would ultimately be bad for the company responsible for it — and especially bad if there was an alternative way of doing business that would be just as sound from the standpoint of the stockholders and more in keeping with the needs of the Philippines.

Some combination of the above factors led to the decision, and on June 21, 1947, The Philippine American Life Insurance Company was incorporated, and started business early in August. The initial paid-in capital was P500,000, and in addition there was a contributed surplus of P850,000. Subsequently, in 1951, paid in capital was doubled and contributed surplus was increased by P250,000. All but a token amount of this basic

financing came from the C. V. Starr interests, making the company truly Philippine and American — operating solely in the Philippines under Philippine law and regulation, financed almost solely by American capital, and manned nearly 100 percent by Filipinos.

The transition from U.S. Life to Philamlife was smooth, largely because the entire U.S. Life agency force and organization was obtained for the new company. Sales of U.S. Life policies were not cut off abruptly. Instead, Philamlife agents continued to represent U.S. Life as well, a circumstance which overcame any doubts they might have had about going to their prospects with only a new and unknown company behind them. It is an interesting sidelight on the sales-mindedness of Philamlife management that this decision was made precisely for the purpose of overcoming such doubts on the part of the agents, and the decision had exactly the desired effect: The agents stayed on, and sold Philamlife with the continued success already described.

However, there are other things besides volume of sales alone which make the company's early history and present position outstanding, as the following chapters will bring out. Among these are some of the claimed "superlatives" listed at the beginning of this chapter: The pioneering in group life insurance and group surgical and hospitalization insurance; the pioneering in direct management of investment properties, which is most spectacularly illustrated by the companies housing projects; the pioneering in substandard insurance, especially on Armed Forces personnel; the pioneering in nonmedical issuances. These are matters of actuarial, investment, and underwriting policy, and the management makes its decisions according to sound principles in each of these fields. Yet at the same time, the decisions are often made in support of the selling effort, or, conversely, the selling effort is geared to the decisions.

IV.

Philamlife — Sales

IN THIS CHAPTER we take up the sales aspect of the Philamlife operations to see what comes out of the company's intensive drive for more and more business.

Here again it would be well to give one of the conclusions in advance: The fact that Philamlife is first of all a sales organization is in no sense an adverse criticism of the company. On the contrary. If the institution of life insurance itself is good in a community, then the process of selling it is also good if this process results in a pattern of life insurance ownership which meets the needs and wants of the policyholders and contributes to the economic advancement of the community. Our conclusion is that the end product of the Philamlife sales effort meets these tests.

WHO BUYS FROM PHILAMLIFE?

THE PHILAMLIFE SALES EFFORT covers the field of likely insurance buyers in the Philippines, so it is very difficult to describe a distinctly "typical" Philamlife policyholder. The company sells big policies (up to P300,000) and small ones (down to P500). It sells in the cities and urban areas to businessmen, professionals, taxi drivers, laborers, and anyone else with a felt need and some money. It sells just as hard in the rural areas and barrios to farmers, school teachers, fishermen, and doctors. It sells all over the islands to members of the Armed Forces. Unlike some other companies in the Philippines, it has no special distinctive group to which it caters. (See Appendix, Table 3, page 78.) While its policyholders as a group are not a cross section of the Philippine population, they are probably a good cross section of that part of the population which owns life insurance.

However, we will try to describe the average Philamlife policyholder. The chances are two to one that our typical

policyholder lives in an urban area, and just about even that, if he is an urbanite, he lives in the city of Manila itself. This immediately stamps him as not being a typical Filipino: Only one-fourth of the Filipinos are urbanites, and only five percent of them live in Manila proper. (Another five percent are in the metropolitan area of Manila.)

If he lives in an urban area, our policyholder is neither very wealthy nor very poor. He is generally a small independent businessman, a professional, or a salaried employee whose income is between P3,000 and P6,000 a year, who rents adequate though modest quarters, and who is the head of a family with anywhere from three to eight children. He will be a relatively young man, between 25 and 35, and he will have life insurance coverage equal to a little less than his average annual income, an amount, surprisingly enough, which compares favorably with the average coverage in the United States.

Our rural policyholder is apt to be quite well-to-do by the standards of his community. His income will be in the neighborhood of P2,000 in a country where rural cash incomes are usually P500 or less. He will most likely be a small landlord, a professional, or a school teacher. He will hardly be a tenant or a farm laborer, because in order to be able to afford any life insurance at all, he must be in a much higher economic class. He probably has no savings account; his assets are in his land, his house, his carabao, and his tools, and he keeps his ready cash hidden around the house in a bamboo tube. He has three or four children, with prospects of many more. Like his brother in the city, his insurance will be equal to about his annual income.

These, for what they are worth, are the "typical" policyholders. To anyone who knows the Philippines, one fact stands out—although the characterizations may be typical of the Philamlife policyholders, they are not at all typical of the people of the Philippines. The contrast with the United States is sharp. Whereas in the U.S. a cross section of life insurance owners is pretty much a cross section of the whole population, or at least of the bread-winners in the population, in the Philippines the life insurance owners are a nonrepresentative group. In the rural areas especially, and to a lesser extent in the ur-

ban centers, they come from the upper economic classes. Even so, our typical policyholder is in a fairly low economic position, not only by American standards, but more importantly in comparison with the relative position of the average Filipino policyholder before Philamlife started its broad sales coverage of the entire population. Every year there is some slight additional penetration of the lower economic groups as the company's sales campaigns create more and more insurance consciousness in the Philippines and as other companies follow suit.

WHY DO PEOPLE BUY INSURANCE?

THE ANSWER HERE is that most of them don't. As of the end of 1953 there were only 230,000 individual life insurance policies in force in the Philippines. Assuming that each policy covers a separate life—which is clearly a generous assumption — this means that only about one out of every 90 Filipinos is insured. In the United States, the figure is 1 out of every 2; however, there is a sharp upward trend in the Philippines. Before the war there was one policy for every 230 people. Since 1948, coverage by all companies has increased steadily, but even if this upward trend continues for years, it will be a long time before the Philippines can be called "insurance conscious". There are three very good reasons for this.

The first is the simple fact that, compared with the U.S. and other insurance-conscious countries, the economy of the Philippines is not greatly based on cash. Opportunities for employment that pay a regular cash wage are limited, and in most cases where cash wages are paid there is very little surplus for savings. Large-scale insurance buying requires both cash and a surplus.

The second is that, in the Philippines as in most other Asiatic countries, family ties and obligations are very strong. The family takes care of its own. And the "family" includes great-uncles, stepbrothers, in-laws, fifth cousins, and, if necessary, their friends. In a society such as this, the felt need for life insurance protection is not as great as it is in Western countries where modern urbanization has to a great extent

limited the socially responsible family unit to the single household, whose head feels that he must provide for the wife and children whether he lives or dies.

The third reason is that the overt contemplation of ultimate death is even more distasteful to the average Filipino than it is to the average American. Some Filipinos say that this is part of their Spanish heritage, but whatever the source it is considered impolite, uncultured, extremely crude, and (among the more superstitious) downright dangerous for anyone to hint that another person might die some day. For the life insurance agent this leads to all sorts of semantic acrobatics, where he tries to get over the idea that "something might happen" without even mentioning what "something" might be. If he *must* finally say "die" or "death," he usually follows the word with a fervent *que Dios no lo permita*, but even so he creates a negative attitude in his prospect. The possibility of death is such a personal matter in the Philippines that it can usually not be discussed objectively with other people.

Largely for these three reasons, the motivation for buying life insurance in the Philippines is quite different from that in the United States. In their various forms, life insurance contracts are some sort of combination between protection for survivors in case of premature death, and savings for the policyholder if he should live. In the United States, the primary feature is normally protection — most often family protection — with the savings aspect being considered a desirable, but not a necessary, added feature. Just the opposite is the case in the Philippines. Over 90% of all Philamlife individual policies are on an endowment plan, with the 20-year endowment by far the most popular. The emphasis is on savings, with the "something might happen" benefit distinctly secondary.

Why does life insurance appeal to the Filipino policyholder as a means of saving? First of all, he wants to save; the difference between having a little capital and being continually broke can be very great in the Philippines. Secondly, he knows his own weaknesses. While he is capable of being frugal for months on ends, he knows that sometimes he is a terrible spend-thrift — that anything he has managed to accumulate in the course of a year might, if he could get his hands on it, be

spent impulsively in a day, at the *fiesta*, on a birthday celebration, for a gift to a friend, or for something else that makes life worthwhile, noble, and incidentally financially precarious. Consequently he is attracted by the idea of a systematic savings program that will eventually give him an amount of money substantial enough to make a real difference in his life. One of the leading Philamlife agents, a woman who regularly sells a hundred new policies a month, reports that her most successful closing argument is that saving through life insurance is best because "You lose so much money if you don't complete your plans, and therefore you will force yourself to carry them through."

The chief motivation, then, is to save systematically, usually for a goal that is only vaguely defined: To buy a house someday, to have a small nest egg at retirement time, or just because it is a good idea to accumulate a solid amount of cash. A more clearly defined saving goal is in connection with juvenile policies, 99.5% of them endowments, which are becoming increasingly important to Philamlife. Here the savings program is usually for one of two purposes: To provide for the child's education, or to give him a little capital — perhaps a dowry — when he starts out on his own. And it is interesting that in the case of these juvenile endowments the protection feature is respected. Virtually all juvenile policies carry a rider on the life of the parent-payor so that if something should happen to him the child's education policy or dowry would still mature.

A rider such as this is just about the purest form of protection-without-savings that can be issued by a life insurance company. The fact that Filipinos buy it may indicate that in the future the protection aspect of insurance will become more important. So does the fact that they buy other types of pure insurance riders, such as an accidental death or disability benefit.

At present, however, the emphasis is clearly upon savings. Of course, the company offers all forms of insurance, and sells them, too. Especially in Manila and other cities there is a fairly substantial group of businessmen and professionals who think of their insurance needs very much as their Amer-

ican counterparts do; for these people the company is prepared to issue an appropriate policy to meet any need that the prospective policyholder might have. The management hopes that as time passes the country will become more and more "insurance conscious" and that Philamlife agents will be increasingly able to sell protection against unexpected death. Meantime, they issue principally endowments, at the rate of about 150 policies a day.

DO BUYERS GET THEIR MONEY'S WORTH?

THERE ARE TWO WAYS of looking at this question: First, what is Philamlife's rate structure like? And second, does the company tend to oversell so that buyers have an inordinate tendency to drop policies after keeping them for only a short time?

As for Philamlife rates — They stack up well against competitive rates, at least at the time this was written. Life insurance as a science is in its infancy in the Philippines; consequently, one of the chief ingredients of rate-making, namely, an approved mortality table reflecting experience of the group being insured, does not exist. Most companies operating in the Philippines, therefore, use one or another of the American tables with a special loading for tropical conditions. This is the Philamlife system. As a result of this system — which is probably the best that can be used until reliable mortality data exist — we must conclude that Philamlife rates *may possibly* be different (higher or lower) than they should be on the basis of the actual mortality experience.

But this is true as well of all other companies operating in the Philippines. In such circumstances, any life insurance company is torn between two objectives when it decides on a rate structure. First, it wants to be conservative so as to minimize the risk that its reserves will be impaired by a highly unfavorable mortality experience. This creates a tendency towards high rates. But on the other hand, the company does not want to be undersold, at least not by any significant amount. The fact of competition, therefore, tends to make rates lower.

In the Philippines it would appear that the competitive factor is sufficient to protect the buyer against an excessively

conservative rate structure. Philamlife is far ahead of the field in sales but its agents certainly do not have a monopoly on the life insurance business. Some of the other companies have just as aggressive a sales program as Philamlife's — although they cover the islands less intensively — and they by no means overlook the possibility of taking away some of Philamlife's business by offering insurance at a lower price. And Philamlife cannot afford to be undersold.

The obvious test for this a priori conclusion is to compare Philamlife rates with those of its competitors. However, intercompany life insurance rate comparisons are not easy to make; to be complete, consideration must be given not only to quoted rates but to potential dividends, surrender values, and company practices with respect to policyholder service. Furthermore, generalized comparisons are often not meaningful, because the differences important to the person who is going to buy insurance are those relating to the particular kind of policy that he wants to buy and to his age at the time, and any rate difference he discovers would be modified in his mind by his attitude towards the competing agents and companies.

Despite these limitations, an attempt at rate comparisons may give an indication of whether Philamlife policyholders get their money's worth. We chose to compare Philamlife rates with those of its principal competitor for ordinary life, 20-payment life, and 20-year endowment policies in the three amounts for which rate differences are quoted (under P5,000, P5,000 to P9,999, and P10,000 and over), and for the five age groups of 20, 30, 40, 50, and 60. The comparison was limited to non-participating rates in order to eliminate the question of dividends.

Altogether, 45 rate comparisons were made. Philamlife was lower in 22 cases, the competitor was lower in 22, and in one the difference was so infinitesimal that it can be ignored. For 32 of the rates the difference was negligible, ranging from the truly insignificant to about 1.5 percent; here again Philamlife and the competitor had just about the same number of higher and lower rates. For the remaining 13 comparisons, differences ranged up to about 4 percent, with honors again breaking even. An interesting point is that for the 20-

year endowment policy, which is the one most in demand, the two companies' rates were closest together; the 15 comparisons with respect to this type of policy showed 14 differences of less than 1.5 percent, of which 12 were less than 1 percent.

A similar comparison was made between Philamlife rates and those of one of the leading United States stock insurance companies. The United States company's rates were those used for underwriting standard risks in the United States, and the comparison was limited to nonparticipating 20-year endowment. In by far the majority of cases, the Philamlife rates were lower, and by margins ranging up to more than 10 percent. This leads to the unexpected conclusion that very often Filipinos may pay less for life insurance than Americans do. The explanation is that one of the determinants of life insurance rates is the expected return on investments, and in the Philippines the interest rate is higher than it is in the United States. Evidently this interest rate difference more than offsets the higher Philippine loading for tropical mortality and expenses.

All of this, of course, does not conclusively prove anything about insurance rates in the Philippines, except that Philamlife's and its competitor's rates are quite close together. Finally, competition being what it is, it seems clear that anyone buying life insurance in the Philippines will get a pretty good buy.

The next question is that of overselling. Overselling of life insurance is an unprofitable operation for everyone concerned. If a policy is allowed to lapse early in its life, everybody loses except, perhaps, those agents who have only a short-term interest in their business. For the company, it is a rule of thumb that first year costs are in excess of the first year's premium; the agent's and manager's commissions, the underwriting costs, the record-keeping expense of putting a new policy on the books, are all nonrecurring first year costs that generally leave the company no profit. A policy which has lapsed prior to the time that surrender values appear is largely a waste of money for the policyholder, especially in the case of endowment plans. Real success for the agent who hopes to make a career out of life insurance depends on a steady flow of renewal commissions and a growing number of satisfied

V.

Philamlife — Investments

PHILAMLIFE'S ACHIEVEMENT of mobilizing savings is only a part of the story. After the savings have been brought under the company's control, what does it do with them?

The unique feature of Philamlife's investment program is its emphasis on real-estate ownership, management and development. The company does not buy existing structures. It builds new ones; it is known throughout the Philippines for its commercial-industrial buildings and for its housing projects for middle-income families. We will come to these in some detail later.

Prior to 1950 Philamlife's investment portfolio was conventional for an insurance company, running heavily to conservative first-mortgage loans and grade A stocks and bonds. The only real estate it owned was a piece of land on which it expected to put up a home office building. Philippine insurance law did not at that time permit life insurance companies to have large real estate holdings.

However, the company sought to have the law changed and in 1950 it was changed to permit the construction (or acquisition) and subsequent ownership of housing projects and of other income-producing real estate. The law defines housing projects as one category of investment, and income-producing real estate as another and provides that holdings in each of the two categories may not exceed 25 percent of total assets.

Philamlife was then beginning its most significant period of growth as a source of investment funds. Company officials could forecast with some confidence that for a number of years they would have annually a sizable and growing amount of money for new investments. They decided to put it into real estate to the limit permitted by the new law, and by the end of 1954 they will have reached their goal.

The pattern is an interesting one: The commercial-industrial buildings are designed and built for a long-term tenant, generally one who, for one reason or another, does not care to own real estate. Tenants are all of the blue-chip variety and leases run in the neighborhood of twenty years. With such a long lease, the tenant is protected against possible inflation. With such solid tenants, the company is protected against having a nonproducing property on its hands. At the end of the lease period, both parties can take another look. By that time the company expects that most of its original investment in buildings will have been amortized, while the value of its land holdings will have increased. It is good business for both parties.

On the housing projects, the pattern varies. There are two small pilot projects — of 50 and 46 units respectively — now in existence, where the units are rented. There is one big project, eventually to consist of 600 units, now under construction in Quezon City, near Manila, where the units will be sold to carefully selected buyers on a very attractive monthly payment basis.

No other life insurance company in the Philippines has taken advantage of the changed law. On the contrary, in their real estate operations, the other companies stick to the more conventional forms of mortgage financing. Why is this? There seem to be several good reasons: The market for sound mortgages at profitable rates is good; only American and Filipino companies can own real estate in the Philippines, which rules out this kind of operation for some companies; big investment decisions are made by the American companies at the home office, and unconventional decisions are seldom made over such a distance; and finally a big real estate operation takes a lot of money. What it boils down to is that at present the other companies do not think that the Philamlife kind of investment would be good business for them, although they are willing to concede that it might be good business for Philamlife.

It is perfectly clear that Philamlife thinks so, even though at first sight the "good business" angle may not be so obvious. Let us take as an example the Quezon City housing project,

which is the company's greatest pride. When it is completed it will have a book value of some 10,000,000 pesos, and will probably represent 20 percent of the company's total assets at that time. No business organization can afford to be guided by altruism or sentiment in making decisions about a property of that size.

And yet — the company bought the land from the Philippine Government, and one of the conditions of sale was that the company's return on its investment should be limited to 5 percent a year. With mortgage money easily saleable in the Philippines today at 7 percent and even 8 percent, where is the "good business" in this? Especially, when you have to take on the headache of managing the property.

The answer is one of business judgment in the evaluation of a number of factors.

....In the first place the headache of management is so big that a separate organization will have to be set up to handle it, and most of its expense will be chargeable to the project. Thus, the cost does not come out of the 5 percent return — as overhead of handling a mortgage would have to come out of its return.

....Next, each of the families living in the project will be good friends of Philamlife when it comes to buying insurance. And considering the size of Filipino families, this is a good number of friends to have.

....Of course, all houses will be insured against fire, typhoon, etc., with Philippine American General, Philamlife's wholly owned subsidiary; and each home owner will probably buy enough term life insurance from Philamlife to make sure that the house will be paid for if he dies.

....The security of the investment can hardly be questioned. Home buyers will be carefully selected as the kind of people who build a community and hence, as an incidental in the process, add to the value of the real estate. Therefore, if the company should ever in the future find itself with a few houses unexpectedly on its hands it would have no trouble selling them at a good price.

....Also, the project fills a community need and hence marks the company as one which makes a positive contribution to

the community. This fact in itself means high morale for the company agents and is excellent from the standpoint of public relations. There were 20,000 visitors to the project during the first 30 days after the opening of model homes. This is good business.

When all of these factors, and perhaps others, were added up, their big housing project looked better to the Philamlife management than a series of mortgages on unrelated buildings or a safe full of stocks. So their good business decision was to go ahead with it. The reasoning behind the decision to go into full ownership of commercial-industrial buildings must have been very much the same.

So much for the reasons for the decision. What have been, or are likely to be, the results?

COMMERCIAL-INDUSTRIAL

PHILAMLIFE'S PRESENT commercial-industrial program involves eight major projects, of which three are completed and occupied, two are under construction and three are still in the planning stage.

The three buildings already up were all built for tenancy by American companies. In each case the parent companies decided to establish manufacturing facilities in the Philippines after it became evident that import controls on finished products would probably be tight. And in each case, according to the local managers, the project would probably have been considerably delayed if Philamlife's kind of lease-back financing had not been available. Of the two buildings under construction, one would definitely have been built anyway, while the other is almost entirely dependent on the Philamlife type of financing.

These buildings are modern in every sense of the word. They were individually designed for the tenants; their features include precise temperature and humidity controls, sterilized air conditioning for laboratories, etc. Along with many other light manufacturing plants which have sprung up recently in the Manila area as a result of import and exchange controls, they are architecturally forward looking — pleasing to the eye and pleasant to work in.

What have these industries done for the Philippines, and what part of their contribution is really Philamlife's? On the last part of this question it is too easy to make extravagant claims (as company enthusiasts sometimes do), so it would be well to get the Philamlife contribution in perspective at this point. In the first place, Philamlife has not "created" any new industries to occupy its commercial-industrial buildings, nor is it likely to. Neither has it removed any major obstacles which might have prevented the industries from getting started; that is, in all cases where Philamlife has financed a commercial-industrial development, the chances are that the same development would eventually have taken place with some other form of financing if Philamlife had not been in operation. But, as was pointed out before, there would probably have been delays, and perhaps the quarters eventually decided upon would not have been as satisfactory. Thus, Philamlife's main contribution in this field has been that of expediting commercial-industrial development, and not of creating it. It has also maintained a high architectural and engineering standard which makes its buildings a credit to the community. And to some extent it has pioneered in opening up new neighborhoods for light manufacturing industry.

The industries themselves are contributing to Philippine industrialization and self-sufficiency — something which the Filipinos' new nationalism makes them prize highly. Whether this makes sense from the standpoint of optimum worldwide economic development is another point, but it is clear that the Filipinos like it, and therefore it serves to meet their aspirations. A good example is one of Philamlife's tenants, a firm which used to import all of its goods in finished and packaged form limiting its purely Philippine operations to sales. Now 75 percent of its sales are of goods manufactured wholly in the Philippines, and for all products value added in the Philippines amounts to 55-60 percent of sales.

Of the buildings now in the planning stage, only one is far enough advanced to warrant discussion. This one, however, is especially interesting. It will be a hospital, jointly owned by 14 young and prominent Filipino doctors who, although they will continue to be individual practitioners, will

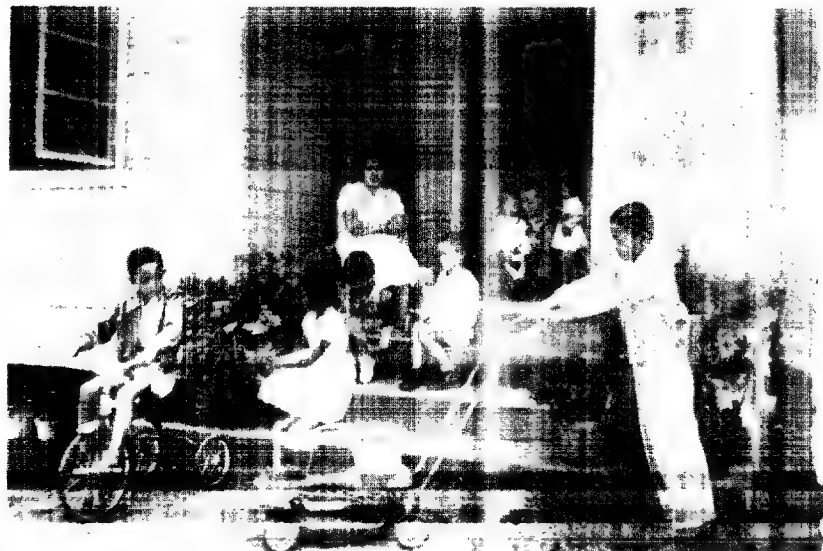
POLICYHOLDERS



A RURAL POLICYHOLDER, a farmer, stands before his *nipa* hut — probably built by himself with the assistance of his neighbors. His carabao is at the right.



THESE SUBURBAN POLICYHOLDERS live in a *barrio* on the outskirts of Baguio City. The man on the left is a mechanic, and the family operates a small truck farm in the field to the right.



A CITY POLICY-HOLDER and his family.

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A POLICYHOLDER being examined by a fluoroscope by the company Medical Director with the assistance of a nurse. The Philippine American Life Clinic has also x-ray and electrocardiograph equipment.

MEDICAL SERVICES

COMPANY EMPLOYEES are x-rayed as a part of their annual physical examinations in the company's Medical Clinic and Laboratory. They are free to consult with the doctors as they please, and are also covered by a group hospitalization and surgical insurance plan.



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OFFICE PERSONNEL and some agents of the Northern Luzon Branch in Lingayen, Pangasinan. This is a typical office, one of the 17 production branches and units which Philamlife has in strategic places all over the Philippines. These branches and some 2,000 agents are directly supervised by the Philamlife President through the Agency Department.

THE COMPANY

PHILAMLIFE'S President congratulates the Records Department Team Captain on winning the company's 1953 interdepartmental basketball tournament as he hands him the trophy. At center is the chairman of the employees' sports council.



A PORTION of the Home Office's Policyholders' Service Department which takes care of the needs of policyholders ranging from requests for policy loans to changes in their policies. There are a total of 383 employees in the Home Office and 125 in the 17 branches and units.



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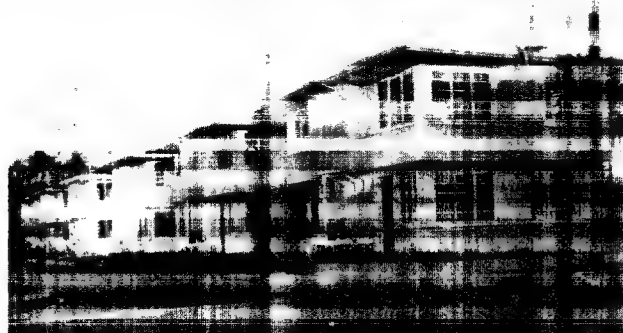
PHILAMLIFE assists industry and commerce by either extending mortgage loans or actually financing the construction of a building, thus permitting these commercial or industrial firms to use their capital funds for the development of their respective operations. The buildings shown above are the first three in the chain of commercial-industrial buildings financed and leased by Philamlife.

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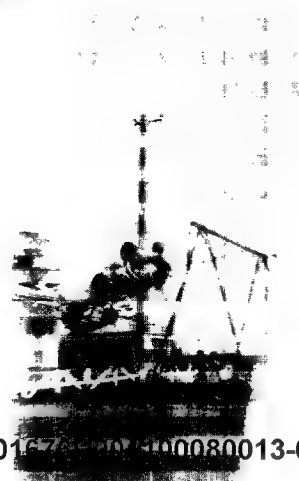
HOUSING

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A SECTION OF the 46-unit, two and one half acres lot in Iloilo City, the first of Philamlife's housing projects, inaugurated on February 1, 1952. Of the entire area, only 20 percent went into the buildings. The rest was distributed to roadways, sidewalks, service walks, park area and playground, lawns, and tennis court. The houses are built of strong materials, and each unit has two bedrooms, one master toilet, one auxiliary toilet, and living-dining room.



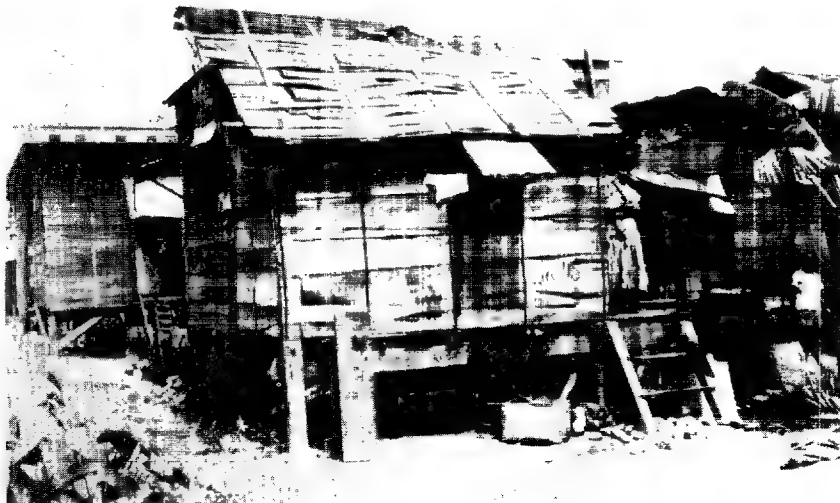
THE SECOND HOUSING PROJECT is located on a ten acres site just a few minutes walk from the heart of Baguio City. There are 48 cottages, an administration building, and a cooperative store. Each house has approximately 4,000 square feet of land area, and has two bedrooms, one living-dining room, one kitchen, one bath and toilet, a built-in clothes closet for each bedroom, and a built-in linen closet. Each cottage has water system, sewerage, electricity, and provision for telephone connections. A corner of the playground is shown at right.



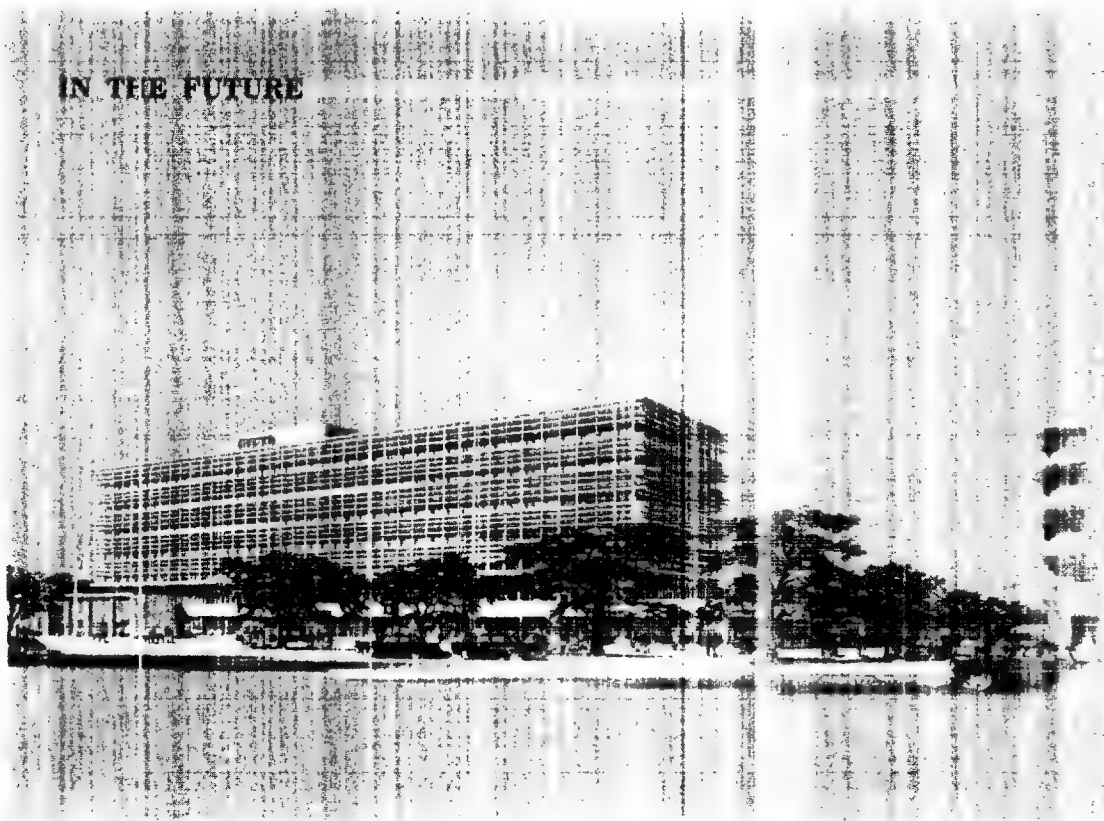
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A TWO-BEDROOM BUNGALOW, the smallest of the several types of houses to be constructed on the 600-house, 110 acres site on Highway 54, Quezon City. Shown is one of the first four model houses. Three hundred houses were scheduled for completion by November, 1954 and the additional 300 homes are scheduled for early 1955.



BECAUSE OF THE INCREASED POPULATION and extensive war damage, thousands of low-income people in Manila live in *barong-barong* dwellings like these, built of packing boxes, flattened-out gasoline cans, odd bits of wood, corrugated board cartons.



PHILAMLIFE HAS PURCHASED a site for its new home office building shown above — scheduled for completion in 1957. It rents its present home office space. The projected building will have 200,000 square feet of floor space and will be on a five acres site on a booming new business street in Manila whose development has been helped along by Philamlife projects, and where land values, including the value of Philamlife's holdings, have increased commensurately.

operate on a clinic basis. Present plans call for about 70 beds and the latest diagnostic and treatment equipment.

The doctors' plans are not complete in all details, but the possibilities of their new setup have fired their imagination. Among the things they are looking into is the possibility of establishing a prepayment medical, surgical, and hospitalization plan for family coverage of moderate income groups, similar to Blue Cross. They are confident that their group facilities will appreciably advance medical knowledge in the Philippines.

HOME AND BRANCH OFFICES

IN ADDITION TO BUILDING for others, Philamlife is also building for itself. It has already purchased sites for a new home office building (it rents its present home office space) and for two branch offices. The branch offices will be completed in 1955, and will be followed by others. The home office is now scheduled to be finished in 1957.

The interesting feature about the home office building is that it will be a sizable investment — P10,000,000, or just about the same as the cost of the Quezon City housing project. The building will be on a large tract on a booming new business street whose development has been helped along by Philamlife projects, and where land values (including the value of Philamlife's holdings) have increased commensurately.

The fact that Philamlife is in a position to create values simply by moving into a neighborhood has undoubtedly influenced its real-estate operations. Its San Fernando branch office will be built in what is now a rice field, but company officials are confident that their building will attract others to the neighborhood. For this reason, they have bought more land than they need, will put up more buildings than they need, and will even have a small (20-unit) housing project on the site. Similarly, they are considering a site for another branch office, still in the tentative stage of planning, which is away from the center of the provincial town that it will serve; but officials think that the site they have selected is

in the direction of natural urban growth, and their judgment is strengthened by the belief that Philamlife's very presence there will accelerate growth in that direction.

HOUSING PROJECTS

HERE WE COME TO THE SUBJECT which, next to life insurance itself, everybody connected with Philamlife likes most to talk about. The company's housing projects — existing, under construction, and planned — are its greatest pride. The pride is justified.

Before going into the subject, however, one thing should be made perfectly clear: The Philamlife projects are not, by themselves, going to solve the housing problem of the Philippines. Even Filipinos not connected with the company sometimes forget this when they talk about the houses that Philamlife is building. True enough, they will make a big dent in the backlog of housing for the middle-income group in the cities where they are located; and in addition they may stimulate other private companies to build similar kinds of houses for this income group. This is a contribution which should not be minimized.

Nevertheless, Philamlife does not even touch the fringes of the most important housing problem, which is that of providing low-cost accommodations with sanitary facilities for the thousands of Filipino families, mainly in Manila and its suburbs, whose living conditions are now almost beyond description. Nor is it the intention of the company to attempt to meet this problem. According to company officials, this is a field for government action. It also happens to be a field in which the government is taking action. Since the end of the war, the Peoples' Housing and Homesite Corporation has started six major projects around Manila which, when they are all completed, will contain nearly 9,000 dwelling units, and will accommodate nearly 70,000 people at rentals ranging from 20 to 50 pesos a month.

This is large scale public housing, but even so it falls far short of meeting the problem. Census figures show that between 1939 and 1948 the population of the Philippines as a whole increased by 20 percent; that of Manila by 55 percent.

And Manila was hardest hit by war damage. The result is that the city's swollen population has strained housing and sanitation facilities beyond the breaking point. On public land in and around the city, people without houses have set themselves up as squatters, usually building some sort of crude shelter out of whatever materials they can lay their hands on: Packing boxes, flattened out gasoline cans, odd bits of wood, even corrugated board cartons. They have no privacy, they have no water, they use public toilets or none at all. And they breed disease, delinquency, and discontent.

At the same time, the population pressure in Manila has created an inflated real-estate market which would make it virtually impossible for most of these people to pay the going rent even if they were lucky enough to find a place that they could have. For them, the only answer is public housing — or some variant of it, such as that in one large project now nearing completion, where the government will provide roads, water and sewage, and a small outbuilding on each lot which will contain a shower, a wash tub, and a toilet; each family that rents one of the lots, at a very low figure, will improvise its housing.

This public program is going on and has been going on for some time. It will have to continue and expand — but not with Philamlife money. The field of very-low-cost housing is too precarious to warrant the risk by an insurance company of its policyholders' funds.

Philamlife helps to fill another need. With government projects under way at the very-low-cost end, and with the upper middle-income and wealthy Filipinos amply able to take care of their housing needs in spite of the inflation (from which many of them profited anyway), the forgotten man in the Philippine housing field has been the middle-income fellow. This means the man earning between 500 and 1,000 pesos a month in Manila and somewhat less than this in the provincial cities. He is in the growing white-collar class — an office manager, a small store owner, or a professional — who has high hopes of raising his family in decent and happy surroundings. Too often he is stymied by the housing shortage. He can't afford inflated rentals; he can't accumulate enough

money to make a downpayment on his own house with conventional mortgage financing; and he can't be happy where he is. This is the group whose needs Philamlife is beginning to meet.

The company started in the housing field with two pilot projects, one in Iloilo in the Visayan group of islands, and the other in Baguio, a mountain town north of Manila noted mainly as a place to escape to from the heat of the lowlands. The Iloilo project consists of duplex and row houses of hollow block construction. The 46 dwelling units themselves occupy only 20 percent of the land, the rest being used for roads, lawns, a park, and a tennis court. All units are rented, at monthly rents ranging from P67.50 to P85.00. The Baguio project consists entirely of individual, free-standing houses, almost completely of wood construction. This project has forty-eight housing units, all of the same basic two-bedroom-and-bath design. They come in two sizes — some with small rooms, some with big — at monthly rents of P85.00 and P110.00. Under present Baguio zoning regulations, the houses cannot be sold but must remain rental property under a single management. However, some of the tenants, with the approval of Philamlife, are trying to get an exception to this zoning regulation, and if they are successful the company will probably sell the houses on a reasonable monthly payment basis.

Philamlife looks on these two projects as trial runs for its big one, the Quezon City housing development which will eventually have 600 units, 300 of which are scheduled for completion late this year. This will be a planned and completely self-contained community. It will have its own shopping center, health clinic, and community center. It will have its own school, to be under the direction of the Philippine Women's University. It will have a church. And, of course, it will have a large park and numbers of playgrounds for children.

These houses are for sale, not for rent. But the sales basis is unique: Reasonable monthly payments over a period of 10 to 25 years, with virtually no downpayment. Title does not pass to the buyer until payment is completed; however, after five years of occupancy and steady payment, he acquires an equity interest in the property. The arrangement is a cross

between a conditional sales contract and the kind of equipment-rental system sometimes found in the United States where the renter is given an option to buy eventually and to apply his rental payments to the purchase price.

The Quezon City houses are exceptionally attractive. They will all be of the same basic design, but with enough variation in size, color, elevation, roof treatment, etc. to avoid the stereotyping which blights so many housing developments. There will be both two- and three-bedroom houses, some with car ports, some without. And there will be a few "deluxe" three-bedroom houses on larger lots and with extra features. Prices on the standard houses range from P13,000 to P17,000; monthly payments on the 20-year basis, for example, will be P111 for the smallest house and P146 for the largest standard one, including taxes, insurance and major repairs. The few "deluxe" homes are priced at P27,500.

As would be expected, the company has been mobbed by would-be purchasers for these houses. There is no problem at all of selling them; rather, as the company sees it, the problem is to sell them to the right people. This has put Philamlife in the very interesting position of having to plan a community in *all* details — not just the physical and architectural details which can be settled by a knowledge of engineering and of aesthetics, but the human details as well. What attributes make a person both a good business risk and a good neighbor? A man's employment record, his credit standing, and such things, are good guides to the first half of the question, but what about the second half? Company officials have suddenly become conscious of the fact that while each of them could make a pretty good judgment as to what kind of neighbors *he* would like to have, the selection of good neighbors in the abstract is a tricky business.

There are certain obvious disqualifications: The community would want no wife-beaters, no drunks, no deadbeats, no obviously antisocial characters. On the positive side, it would want dignified, stable, friendly, and considerate people. But a community composed entirely of people with all the accepted virtues and none of the current vices could be a fairly dull place. Company officials have set up a "rating" system

from which they intend to select their new home owners on an objective basis. However, one gets the feeling from talking to them that they hope there will be some human error in their selection and that a maverick or two will slip in.

If the presently contemplated rating system is used, the most highly qualified prospective home owner will be between 25 and 35, married, with three dependents, and will have been steadily employed for the last five years by a reliable and reputable employer. His income will be about P800 (a much higher income will be as much of a disqualification as a much lower one); he will have a savings account or other liquid assets equal to three months income, insurance equal to two years salary, and debts amounting to less than six months income. He will have been paying about P150 monthly for rent for decent quarters in a good neighborhood. He will be a good insurance risk. And, of course, his habits will be temperate, his reputation good, and his morals unquestioned.

In other words, he will be a middle-income man, very probably on the way up. He will be more settled, more thrifty, and generally more promising than most. And the company prayerfully expects that he will be a good citizen in his (and its) community.

This sort of housing development is an entirely new experiment in the Philippines. Never before have people in the middle social and income groups had the opportunity of community living on this scale. Neither, of course, have they faced its challenges — the continuous tug of war between the need for some group conformity and the desire for individual expression which inevitably results when people live in the same kind of houses, send their children to the same school, use the same parks and playgrounds, and go to the same church. We in the United States are used to it; Filipinos are not. It will be most interesting to see how they adjust.

INDIRECT EFFECTS OF PHILAMLIFE REAL-ESTATE OPERATIONS

ANY ECONOMIC ACTIVITY has consequences beyond those which are immediately obvious from observation of the activity itself. Sometimes these consequences are dif-

ficult, if not impossible, to trace; they get lost in the general stream of economic life. In other cases the cause and effect relationship is far from clear; that is, certain economic activity may be related causally to another event which follows it in time, but who knows whether the second event would not have happened anyway, "caused" by something else? For these reasons we are not going to be too precise in attempting to measure the indirect effects of the Philamlife real-estate operations. We will simply cite a few cases where these operations have clearly been related to some subsequent development.

....As has been pointed out before, the very nature of Philamlife's operation tends to increase land values. One of the least desirable postwar phenomena of the Philippines, particularly in Manila, was the rapid increase in land values, which was fed mostly by speculation and quick-turnover investment in existing structures or in congested areas. Philamlife has not contributed to this kind of inflation. On the contrary, most of its real-estate investments have been in outlying districts, and it has gone into them not for a quick turnover, but for the long pull — as have the other insurance companies in their mortgage loan business. For the company, this has created the prospect of a long-term capital gain in a new neighborhood that it has been instrumental in building. For the economy as a whole, the new building in outlying areas has helped to take pressure off the inflated real-estate prices in more congested areas.

....So far, one possible effect of the Philamlife operations has not occurred. Similar and imitative projects have not been initiated by others — yet. In particular, there are no other large-scale housing projects planned for middle-income groups. But there are signs that the popular reception and probable financial soundness of the Philamlife projects — especially the one at Quezon City — are making others sit up and take notice. Imitation may come later.

....Also, it is too early to judge the likely effect of the largest housing project on community development in its neighborhood. The project itself will have stores, a school, and a church. Perhaps others will be needed, and perhaps they will be built

in the neighborhood and become the nucleus of a new suburban development. And perhaps not. But if it happens, we can safely say that Philamlife had a big hand in starting it.

....The local home-furnishing industry can expect a small boom in the sale of furniture, rugs, stoves, refrigerators, and such as the Quezon City-project houses are completed. Based on their experience elsewhere and on their analysis of applicants for Quezon City houses, Philamlife officials estimate that well over half of the new residents will furnish their homes almost completely with new goods, and virtually all will have to make major purchases of one sort or another.

....Of course, the commercial-industrial tenants have been and will be spending money for equipment and furnishings, and local supplying industries have benefited. But here the causal chain back to Philamlife is tenuous. As has been pointed out before, the commercial-industrial buildings would very probably have been put up somehow if Philamlife financing had not been available, and the tenants would have had to furnish them. On the other hand, the housing projects simply wouldn't have happened in the absence of Philamlife, and people by and large would have continued to live in their former quarters with their old furniture.

....One of the Philippine goals on the road towards greater economic self-sufficiency is an expansion of the local building-materials industry on an economic and low-cost basis. Philamlife has definitely made a contribution in this direction. Some think that it has been a very big contribution others that it has been helpful but not decisive. The fact is, of course, that although the Philamlife projects are outstanding ones of their kind, they are only a small part of the aggregate construction in the Philippines, and it would be surprising if Philamlife has been uniquely responsible for any major stimulus to the building materials industry.

However, the company has been instrumental in the development of some new products and processes. Just how instrumental is anybody's guess. Here are some examples:

- A new type of jalousie hardware is being installed in the houses of the Quezon City project. This new, and very simple, hardware is patterned after an American

product. It is expected to reduce the cost of jalousies very considerably and provide some stimulating competition for manufacturers of the old type jalousies. Jalousies are extensively used in the Philippines, and prospective home owners will certainly welcome the savings. (Philamlife engineers estimate the savings at 220 pesos for a two-bedroom house with six windows).

- Quezon City houses will have a new type of corrugated asbestos roofing which has been under development by the manufacturer and his affiliates for many months. The manufacturer claims — and Philamlife hopes that he is right — that this material is ideal for the Philippines, with its problems of heat, humidity, and light frame construction. Philamlife's contract for this material was the manufacturer's first sizable one. It is most likely that this roofing would have been put on the market anyway, with or without Philamlife, but in any event Philamlife gave it a real boost.
- The company's contractor has developed several cost saving methods which are applicable only to "project" type building. The most interesting of these is a prefabricated "plumbing tree" in which all the sewer connections for the entire house — the water closet, the lavatory, the kitchen sink, and the shower drain — are prefabricated in the shops, and set up in the house in one operation.
- They have also developed a new exposed-rafter ceiling assembly, in which part of the roof structure is laid over the ceiling and becomes structurally a part of the ceiling frame itself. This eliminates a large part of the ceiling framing formerly used.
- Inasmuch as windows were standardized, they were able to develop a special concrete block for use around windows. The block contains a groove on the jamb side, facilitating the installation of steel window frames.
- A hitherto idle ceramic plant is resuming operations in time to supply the Quezon City project with ceramic floor tiles and glazed ceramic bathroom tiles (this last a new product for the Philippines). As in the case of the roofing materials, this plant would probably have gotten under way eventually without Philamlife, but it is fair to assume that the Philamlife contract for 600 houses helped it along considerably.

INVESTMENT OTHER THAN REAL ESTATE

AS OF THE END OF 1953 only 30 percent of Philamlife's admitted assets were in real estate, the balance being in the more usual kinds of insurance company investments: First mortgage loans (17 percent), high grade bonds and stocks (16 percent), loans to policyholders (25 percent), and the balance in cash and miscellaneous investments. But by the end of 1954 the company expects that its financial commitments for its real estate operations in Quezon City and on the commercial-industrial projects now under way will bring the total of real-estate investments (exclusive of home and branch office land and buildings) to just about the legal limit of 50 percent of admitted assets. Furthermore, practically all of the company's anticipated new investment funds in 1954 will go into these real-estate projects. This means that for all practical purposes, Philamlife will not, during this year at least, be a big source of investment funds for general borrowers in the Philippines.

Nevertheless, the company will be in a position to influence the general money market to some extent. One of the favorite stories of company officials is that they were recently approached by the mayor of a provincial city who asked the company to finance a local street-improvement program. The company had to decline because its anticipated funds were so fully committed. However, the company officials proposed as a substitute that the city make a public offering of bonds for the purpose of financing the program and, thus, try to raise a large part of its needed capital from the city's own residents. If such an offering were made, they promised, Philamlife would take a substantial amount of the bonds in order to help create public confidence in them. As this is being written, the city is proceeding on this basis; the Philamlife interest, city officials say, has "greatly influenced" the program.

It may be an exaggeration to suggest that if Philamlife had not helped in this case, the bond issue would never have been thought of, local capital now prospectively going into community improvement would have remained dormant, and the

city's streets would have continued to deteriorate. But it is not an exaggeration to say that in this case the company was consciously motivated by its opportunity to put its prestige behind a project which was clearly related to economic progress, and that its action — or promised action — helped.

VI.

Philamlife — Other Aspects

IN ADDITION TO MAKING investments and selling insurance, there are other aspects of the company's operations that have a social and economic impact on the Philippines: its labor policy, its community relations, its insurance by-products.

INSURANCE "SIDELINES"

AMONG THE CLAIMED SUPERLATIVES of Philamlife listed in Chapter III was that it has "pioneered in the Philippines in group life insurance and in group surgical and hospitalization insurance". The full truth of this claim depends somewhat on just what definition is given to the word "pioneered". If it is to mean that in each case Philamlife got there first and showed the way for others to follow, then the statement will not hold up without qualification. If, however, it is to mean that the company went into a rather uncharted field and, along with some others, made new types of insurance coverage available in the Philippines, then the statement is true. It can even be made stronger, for Philamlife's activities in the group insurance field have not been timid or hesitant, and, as is the case with regular life insurance, the company is writing much more than its proportionate share.

As of the end of 1952 (the latest date for which comparative data are available) there were 46 group life insurance policies in the Philippines; Philamlife, only six years old, had 22 of them, and 7 additional ones were added by the company in 1953. By anything approaching American standards, this is not impressive. In the U.S. in 1952 there were 82,000 group policies covering 35 million lives for an aggregate of \$67 billion; at the end of 1953 Philamlife covered only 6,500 lives with group policies which aggregated only 17 million pesos. However, this is a start, and an important one, in getting the Filipino people acquainted with the value of group life insurance.

It can be expected that within a very few years a respectable amount of group insurance for each employee will be one of the normal fringe benefits for Filipino workers.

Philamlife's pioneering is a little clearer in the case of group surgical and hospitalization insurance. (The company issues no individual policies of this sort, nor does it plan to.) Here the company is frankly feeling its way. It is willing to tailor such insurance to meet the wants of the buyer, provided it can find some reasonable actuarial basis for establishing a rate. For example, it has policies which cover employees only, and others which cover employees and their dependents. So far only six policies, covering a few more than 1,000 people, have been issued, and one of these is for the Philamlife employees themselves. Perhaps the uncertainties of this kind of insurance have kept the other companies operating in the Philippines away from it; in any event, no other company now offers it, although some Filipino employees of subsidiaries of American firms get the same kind of protection as an extension of the parent company's master contract in the U.S. The uncertainties are also of concern to Philamlife. Until there are more solid data on which to base rates, all contracts will be written with the provision that rates can be varied from year to year if experience warrants changes.

The company is also pioneering — in the sense of striking out into unknown fields — with insurance on substandard risks. Practically all companies take substandard business, but, according to Philamlife officials, most of the others make their underwriting decisions in such cases on the basis of American experience. Philamlife is trying to develop a substandard underwriting practice suitable to the particular conditions of the Philippines. So far its experience has been good, but since it takes years sometimes to appraise properly the results of changes in underwriting practices, the company is moving slowly and with understandable caution in this field.

One of the Philamlife's substandard specialties is the extensive coverage that it gives to the members of the Philippine Armed Forces. One sixth of the company's individual policyholders are in the forces, but, since servicemen tend to buy smaller-than-average policies, they have only about one

tenth of the company's insurance in force. Roughly a third of the regulars in all three services combined — the army, the air force, and the navy — have Philamlife policies without a war clause, a fact which accounts for the company officials' sometimes anxious interest in the state of world tensions.

The Philamlife actuaries and underwriters are watching this business carefully, because the group is large enough in the company's total business to warrant special treatment. In addition to a flat rating of nine pesos per thousand on all servicemen's policies, special occupational ratings are applied strictly, and there is a fairly low limit to the amount of insurance that can be written on any one life without the addition of a war clause.

FREE MEDICAL SERVICES

AN INTERESTING CHARACTERISTIC of Philippine insurance companies — not just Philamlife — is that some of them offer free annual medical check-ups to their policyholders. And the policyholders take advantage of the offer too. Every day people come into the Philamlife office in Manila, sometimes for a regular check-up, but more often because they suspect that something is wrong and they don't want to have to pay a doctor to tell them about it. Except for minor or routine ailments, the Philamlife doctors give diagnosis and referral only and no treatment. There have been several spectacular cases where tuberculosis or cancer was discovered early enough to permit successful treatment. There have been other equally spectacular cases where people who suspected that they had cancer, or something else very serious, have had their mental health restored by being assured that they didn't have anything of the sort.

Heretofore this service to policyholders has been available only in Manila. The company is now planning to equip a van type truck with laboratory equipment, an X-ray, an EKG, a fluoroscope, and a pretty nurse and send them out into the provinces with a doctor to give the same service to policyholders there. And at the same time, of course, the doctor and all of his equipment will be available and on the spot to

examine applicants for new life insurance in case a Philamlife provincial agent has some applicants waiting. He will have to be a very unimaginative agent if he doesn't have several when the doctor rolls up in his mobile clinic.

EMPLOYEE RELATIONS

THE OUTSTANDING FEATURE of Philamlife's personnel policy is that practically all of its employees and officers are Filipinos. The only exceptions are the president, a new actuary, and a branch office manager and cashier. Very few other American-owned firms in the Philippines have such a policy. Especially at the top levels and in technical positions, other firms tend to staff themselves with Americans or Europeans. Philamlife's policy in this respect is a deliberately chosen one, in line with the company's initial and sustained effort to get itself identified in the minds of the Filipinos as primarily a local enterprise. Good public relations is an aid to selling life insurance, and the company thinks that its policy of promoting Filipinos to key positions makes for good public relations.

On the whole, employment conditions with Philamlife are good. In almost every respect — wage rates, hours, overtime payments, fringe benefits — the company exceeds minimum legal requirements by a good margin. However, this is not at all unusual among American-owned firms in the Philippines, nor is it unusual among the better-run Filipino ones. Management would have to be very unenlightened indeed if it met only the present minimum legal requirements. Labor experts in Manila rate Philamlife's total performance with respect to labor conditions as excellent, but not unexcelled in each particular. It has been pointed out that some firms pay better wages, especially in the very lowest brackets; that some retirement plans are better than Philamlife's; that some other companies are less paternalistic. But it would be difficult to find many other companies with working conditions that are clearly better than Philamlife's when consideration is taken of all the things that go to make up a personnel policy.

Here are some of the features for employees:

- Permanent employees get 15 days annual and 15 days sick leave a year. More important, they are encouraged to take their vacation leave regularly, and work schedules are arranged so that they can. There is also a special maternity leave arrangement.
- Since the company, being in the life insurance business, has a staff of qualified physicians, it is in a better position than other kinds of companies to provide a well-rounded health and medical program for employees. There are, of course, the usual first-aid facilities, but in addition, each employee has a full check-up annually, and the medical department also provides some free services to dependents.
- Employees are covered under a group life insurance arrangement which provides protection ranging from P3,500 to P11,500. The company pays for the first P1,500 and contributes 20 centavos per month (out of a total cost of 65 centavos) for each additional P1,000.
- The company insures its workers under its group surgical and hospitalization program, with a company contribution of P1.50 per month out of a total premium cost of P2.66.
- Overtime is discouraged, but when it nevertheless occurs, as it must during peak seasons, the overtime pay is generous, ranging up to better than double time after the seventh hour on Sundays and holidays.
- Both office employees and agents are covered by a retirement plan to which the company makes a contribution equal to that of the employees.
- There is a full schedule of employee activities: sports, social events, an educational council, and a ladies club. Employee participation in these activities is high.
- The company has set up a revolving fund for loans to employees in cases of emergency. Loans are limited to P250 or 75 percent of the monthly salary, whichever is smaller, are interest free, and must be repaid in five months.

There are other good features too. The management is constantly thinking of ways to make life more pleasurable for

the people who work for Philamlife, on the theory that people who are well taken care of by the company add to the company's prosperity. Here is the germ of criticism that the American observer might find: namely, that too much initiative and final decision with respect to employee affairs rests with the management. It might be healthier if there were more employee participation in such matters — as there probably will be when the presently youthful union movement in the Philippines comes of age and acquires responsibility.

However, we can be sure of one impressive thing: Philamlife employees like their company and their jobs. For the last two years the separation rate for all reasons has been between 1 and 2 percent. For the preceding three years, during which expansion (and hence lightly screened hiring) was rapid the rate averaged a little over 4 percent. The low rate of labor turnover would make any personnel man happy.

COMMUNITY RELATIONS

PERHAPS WE HAVE emphasized too much that Philamlife believes that good public relations is good business — that when you are in the life insurance business, it pays if people like you. Of course, this is true. But the question of good public relations can be looked upon in two fundamentally different ways. For one thing, it can be considered something that a business needs, as it needs office space, a product to sell, and a number of people to work for it. The business that looks on public relations this way might try to buy its necessary share of good will from the Madison Avenue experts and charge the cost to overhead. But the question can also be approached from the other angle; this would be the angle of trying to adapt the business, consciously, to the things that the community wants, and getting the extra compensation that comes from a constructive contribution to progress. This, it would appear, is the way that Philamlife looks on its public relations. As we shall see presently, it pays off in much more than satisfaction alone; it pays cash too.

It takes only a few minutes with the top men of Philamlife to see why they look on public relations this way. They are extroverts, all of them. They like people, and they want

people to like them. In one way or another, they each have an individual drive for public service, and they consequently prize very highly the public-service aspects of whatever Philamlife does. In view of the fact that these are the men who make Philamlife policy, it is no wonder that much of the policy results in actions that are genuinely in the public interest of the Philippines, and that the company has a good record of cooperation with the government.

The story is told of a man who came to the company asking for a job. When he was turned down, he made a dignified request: "Could I," he asked, "buy a life insurance policy? I want to be a part of this wonderful organization." Very likely this sort of superlative in public relations happened no more than once, but there can be no doubt that the company is held in high regard by the people of the Philippines. Sometimes this regard is shown quite officially. For example, the then President Quirino dedicated the site of the Quezon City housing project. And Philamlife agents are welcomed in Armed Forces installations, where they write, on a salary deduction basis, the bulk of the commercial life insurance bought by Filipino servicemen. This sort of thing requires prestige.

The prestige comes from the necessary combination of the company's actions and the willingness of company officials to talk about them. For these officials clearly *want* to be proud of their company as a Philippine institution, forward-looking, and growing with the new Republic. Yet at the same time they are hard-headed businessmen. This gives a slightly odd twist to some situations. It is not unusual to find some businesses adopting a particular policy because it will result in "good public relations." But at Philamlife the hard-headed business decision, once made, suddenly becomes a public relations asset as the officials of the company wring every last bit of good out of it that can possibly contribute to the progress of the Philippines.

And often they surprise themselves in this process by finding something in their plans that was not foreseen in their early deliberations. For example, the company is now laying plans to establish a bank as a subsidiary organization. This

makes sense from a business point of view if for no other reason than that the company handles a great deal of money each year, and has to transfer considerable sums from outlying points to Manila, and the cost of transferring through the Philippine banking system is substantial. As soon as the plans began to jell, company officials began to think of the public needs that they could fill, especially the need for agricultural credit in the provinces.

Their dream now is of a group of branch banks which will help to break the back of the system of usurious credit — and hence of rural poverty — in the Philippine provinces. This is what they talk about now, privately. Since they have dreamed it, they will probably do it, and then they will talk about it publicly.

Community relations are genuine and good.

VII.

Summing Up

LET US NOW LOOK at what Philamlife does against the background of what its host country needs and wants.

THE BACKGROUND

WE HAVE SEEN THAT from the standpoint of our own interests in the Far East, forgetting for the moment the interests of the Philippines themselves, the new Republic of the Philippines must get ahead. It doesn't matter whether we and the Filipinos like it, or will admit it, but the fact is that in the Philippines the United States is on trial in the eyes of most of the people in South and South-east Asia. And how we survive this trial depends to a very great degree on how the privately owned American firms in the Philippines conduct themselves.

....There is an insistent demand for opportunities of advancement for Filipinos as a part of the country's relatively mild nationalistic aspirations. The dominance of Americans and Europeans, and the prosperity of the Chinese, in economic fields is an irritant to the Filipinos.

....A great deal of capital needs to be plowed back every year into the country's agricultural assets: into its villages, fields, and roads. The country needs more public health facilities and more education. Some small part of this can be financed from abroad; more can be financed locally in one way or another by conventional means; but most must be "financed" by mobilizing the available village manpower, which needs inspiration and tutelage rather than money to be put to work for the benefit of the village.

....There is a strong grass roots demand to get away from the remaining vestiges of colonialism. One of the most important things to get away from, as the Filipinos see it, is the continued dependence of the islands on imports of things they

think they can just as well make for themselves. Therefore, they want to industrialize, within reason. Added to this desire for economic independence, which is certainly a will o' the wisp in today's world, is the need to find employment for people who quite literally cannot find anything to do in the limited labor market of the Philippines at present. This doubles the demand for new opportunities for labor.

....There is a need to create a long-run attitude in the Filipinos, who are apt to be impatient and to expect overnight results from the programs that are now under way. The economic and social changes which are now in sight, and which excite the more imaginative among the Filipinos, cannot take place quickly. The patience that is needed can best be assured by continued progress, even though it may be slow.

....Finally, so far as the alien business firm is concerned, there ought to be a sympathetic understanding of Filipino aspirations. It is supposed to be a fact, demonstrable in any physics laboratory with a long enough pendulum, that the earth revolves around every point on its surface. In Manila it is not necessary to have a laboratory, because the most casual observer can see that not only the earth's axis, but also the center of the universe, is in the Philippines. The Filipinos are deadly serious about making life for them what they think it ought to be, and it serves no American interest well, business or government, to ignore their determination in this matter.

PHILAMLIFE'S CONTRIBUTION TO THE PHILIPPINES

Now, WHAT DOES THE Philamlife operation amount to against this background? The general answer, of course, is clear: Philamlife is good for the Philippines. It is not there for the quick dollar and the big return. On the contrary, its long term investments in real property give it a stake in the prosperity of the fairly distant future of the islands. And this means that it has a stake in the progress towards that future. This is something that appeals to the Filipinos.

The company is actively creating savings, largely among people whose savings never before amounted to anything im-

portant to the Philippine economy. At the present time this point can be overrated, because personal liquid savings are still not of much significance to capital formation in the Philippines. As is the case in most countries in this stage of economic development, major reliance for financial capital must be on government and business savings. Annual increments to personal institutional savings in the Philippines amount to perhaps P60 million, or around 10 percent of the estimated annual requirements of new capital. But Philamlife, after only a few years of operations, is accounting for about 15 percent of the total of personal savings of this type, and it is still growing. Also, and very significantly, it is helping to reach people whose savings have never before been brought into the money economy of the Philippines but whose spending and saving habits are becoming increasingly important as the money economy spreads. And finally, the thrift which the company helps to inspire undoubtedly creates more of a long-term outlook for those who are exposed to the inspiration.

As we have seen, the company puts the capital it accumulates to work in a way that demonstrates its interest in the development of the country. At least half of it, according to law, must go into conventional life insurance company investments. But under present company plans the other half goes either to advance Philippine industrialization, or into housing projects which meet a Philippine need as well as a life insurance company could reasonably be expected to meet one.

And in its personnel policy the company does just what the Filipinos want and require: It develops Filipinos for positions of responsibility. Thus it helps to prove what the Filipinos have long believed — namely, that if they are given a chance they can hold their own against all comers. Every clerk in Philamlife feels that he is on the way up, and each vice president is certain that he is not yet at the top of the ladder. The top may not be with Philamlife; it may be with another business, or it may be in government. But in any event, there is no limit imposed by the company's personnel policy to the full realization of any aptitudes that a Filipino employee might have.

PHILAMLIFE'S REWARD FROM THE PHILIPPINES

WHAT DOES THE COMPANY get out of this? We have already suggested that the officials get a great deal of pleasure and pride from it, but this is hardly enough to justify the initial investment that went into the company. The pleasant fact is that the company also makes good money.

A life insurance company is not expected to be very profitable during its early and growing years, largely because of the high initial cost of putting business on the books. From an examination of the records, it would appear that Philamlife has been no different from what would be expected. Since the company was organized in 1947, it had paid only one dividend up until the time this study was made. That was in 1953, when a dividend of 10 percent was declared. But during these years it has added nearly P2,000,000 to its initial paid-in surplus of P1,100,000, all of which is potential profit in case of liquidation. Its investments, especially those in real estate, have a market value nicely in excess of the amount that is carried on the books. And it brings business to other Starr companies, principally to the Starr affiliate with which it reinsures.

This does not add up to a spectacularly profitable operation, as though the company had struck oil or had found gold on one of its properties, but it does show a respectable investment return. And the chances of Philamlife continuing to realize it are vastly improved by its deliberate identification of its own welfare with that of the Philippines and by its determination to continue to conduct its affairs with this in mind.

Business Writers Association of the Philippines
MANILA

100-100000-100000

Tel 3-3-0

February 25, 1954

National Planning Association
1606 New Hampshire Ave.
Washington, D.C.

Gentlemen:

This is our summary report of the survey which our organization made for you of leading Filipino opinion on the following questions:

- (a) If a successful American-owned enterprise is to make a significant contribution to the economic and social progress of the Philippines, what should be its most important characteristics?
- (b) What successful American-owned enterprises are making such a contribution?
- (c) In general, how do these American-owned enterprises compare with other enterprises (Filipino and other Non-American) in this respect?

Before going on to our summary, however, I should like to make certain observations about the survey:

First, we interviewed a total of 22 persons; one declined to comment; three were interviewed jointly, and we consider it proper to consider their composite answer as a single interview. Consequently, we had 19 productive interviews.

Secondly, in spite of the relatively small sample, I believe that we have heard from a highly influential group of leading citizens who are identified as spokesmen and policymakers for their respective interests, and that the synthesized opinion reveals the thinking of a much larger group. Their representativeness may be judged by

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the fact that in their various capacities they are importantly identified with: 5 chambers, 2 federations, 2 government or national councils, 2 departments of government, 3 government corporations, 3 civic or cultural groups, 3 business or technical groups and associations, and at least 40 private business firms. Most of those interviewed were Filipinos, but there were a few Americans and other non-Filipinos included.

Because of our agreed stipulation that the persons interviewed would remain anonymous - a stipulation which I think added to the validity of the results - I can not identify them further.

Thirdly, the survey was conducted by Mr. Hernando G. Cosio on behalf of the Business Writers' Association of the Philippines. Mr. Cosio is a long time member and past officer of the association.

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The results of the survey are as follows. You will notice that we are presenting them in statistical form, although we realize that a statistical approach is not fully appropriate for this kind of study.

THE FIRST QUESTION drew the following replies (in more or less these terms, and either in negative or positive form):

	<u>Times Cited</u>
(a) must share their know-how; give advancement opportunities, and afford training	(11)
(b) must be fair to labor; give better wages; afford maximum employment to Filipinos; improve living conditions	(8)
(c) must be willing to make long-term investments, at low initial profits; re-invest and not run away with fast gains	(7)
(d) must be sympathetic to Philippine aspirations for economic independence; fit the economic pattern	(6)
(e) must be willing to develop natural resources; use local materials; encourage research	(6)

- 3 -

	<u>Times Cited</u>
(f) must be willing to combine with Filipino capital; share corporate ownership	(6)
(g) must be along industrial lines; produce needs of the people at low cost ... essential goods	(5)
(h) must think and operate in terms of service to people	(5)
(i) must have capacity and fairness; understanding of people; integrity; and enterprise of management	(4)
(j) must respect the integrity of Philippine Republic; obey its laws; pay its taxes	(4)
(k) must have permanence and stability	(2)
(l) must produce and/or conserve dollars; reduce imports	(2)
(m) must have confidence in Filipinos in their future	(2)
(n) must go into pioneer fields of investment; not compete or go into agricultural enterprises	(2)
(o) help build a strong social foundation against communism	(1)
(p) give vigorous support to the Philippines abroad	(1)

THE SECOND QUESTION brought forth altogether the names of more than forty different American firms which, in the opinion of the person being interviewed, are making "a significant contribution to the economic and social progress of the Philippines."

Firms named by only one or two persons .. App. 30	
Firms named by three persons	4
Firms named by four persons	2
Firms named by five persons	2
Firms named by six persons	1
Firms named by nine persons	1

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Regarding Philamlife: It was one of the 2 firms receiving 5 spontaneous nominations. In accordance with our survey plan, at the close of each interview in which the person interviewed had not voluntarily named Philamlife, he was casually asked why he had made the omission. At this point 9 persons amended their nominations to include Philamlife, and made the amendment in such a way as to persuade the interviewer that the omission was inadvertent; 3 gave qualified nominations or were non-committal; another refused to comment (saying that it is too early to judge); and one person felt that an insurance company could not meet the standards that he himself had set in answer to the first question.

I should point out here that the rating of certain other firms would very likely also have been improved if the interviewer had suggested their names.

THE THIRD QUESTION drew replies that may be summarized as follows:

Times Cited

<u>American Firms</u> are --	the most progressive, in management, financing, organization; have better connections; start big, have few failures; practice research, advertising	(6)
" "	compare favorably with Philippine and other alien firms	(1)
" "	do more than others, give training and opportunities for advancement; do not crowd out Filipinos	(1)
" "	are of the hit-and-run variety	(1)
<u>Filipino Firms</u> are --	favorably compared with foreign ones	(3)
" " "	superior to others...	(1)
" " "	handicapped by family traditions	(2)
" " "	easily discourage ...	(1)
" " "	eager for fast profits, or sure ones	(2)

Page 1

Times Cited


Filipino Firms are -- handicapped in financing (1)
" " " uncooperative (1)
" " " do not plan far ahead (2)
" " " are not carefully managed (2)
" " " do not incorporate (1)
" " " start small; grow slow (1)

Other Foreign Firms -- (English, Swiss, Spanish) do all right (2)
" " " are of hit-and-run variety (1)

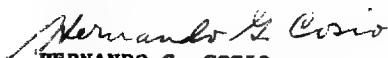
Chinese Firms are more united, better financed, more carefully planned (1)
" " " crowd out Filipinos (1)
" " " undersell, undercut (1)
" " " do not advertise (1)

There was no comment from 5 persons, who felt comparisons on the basis of nationalities are not valid, or who felt they did not possess enough information.

Very sincerely yours


BIENVENIDO E. CALLEJA, President
Business Writers' Association
of the Philippines

Approved:


HERNANDO G. COSIO
Conductor of the Survey

PHILAMLIFE'S RELATION TO THE C. V. STARR
INSURANCE INTERESTS

The Philippine American Life Insurance Company is part of the C. V. Starr worldwide insurance interests which fall into three main groups:

C. V. Starr & Co., Inc. group
American International Underwriters Overseas, Inc. group
American International Reinsurance Co., Inc. group

While Cornelius V. Starr does not himself own a majority interest in any of these companies, ultimate ownership is principally held by him and certain of his business associates.

1. C. V. Starr & Co., Inc. (Delaware), owns American International Underwriters Corporation (New York), which, with its subsidiaries, manages, in the United States, the "Home Foreign" business of fourteen American insurance companies, principally writing general insurance on risks incurred by Americans in their overseas operations. C. V. Starr & Co., Inc. and its associates own a majority interest in three of these fourteen companies, the Globe & Rutgers group. C. V. Starr & Co., Inc. also owns, directly or indirectly, four marine insurance agencies and two general insurance agencies in the United States.
2. The same fourteen American insurance companies also operate individually in various foreign countries. American International Underwriters Overseas, Inc., with head office in Bermuda, acts as foreign manager for each of them separately, either through an AIU subsidiary or through a general agent, writing all lines of general insurance in the local foreign markets.
3. Finally, the C. V. Starr interests control a group of nine individual insurance companies which operate exclusively abroad, principally in the Philippines, Southeast Asia, Pakistan, The Middle East, Cuba, Mexico, and Venezuela. Each company handles its own agencies. Philamlife is a member of this group which contains principally life insurance companies and which represents the only life in-

insurance business conducted by the C. V. Starr interests. These companies are wholly or principally owned directly or indirectly by the American International Reinsurance Company, Inc. (AIRCO).

AIRCO acts as a reinsurer for the companies it controls and also provides them with technical services and advice on operational problems. However, it does not engage in active management of any of the companies.

ECONOMIC AND SOCIAL DATA RELATING TO THE PHILIPPINES

<i>1950 population</i>	21,039,000
Filipino	10,906,000
Chinese	121,000
Other	12,000
<i>Annual population increase</i>	1.9%
<i>Literacy (10 years old and over)</i>	59.8%
<i>Labor force</i>	7,800,000
Agriculture	68%
Manufacturing	7%
Personal services	5%
Other	20%
<i>Area (in hectares)</i>	29,741,000
Farm area	5,727,000
Unclassified public land	7,960,000
Other	6,054,000
<i>Gross National Product (1950 prices)</i>	\$3,950,000,000
Agriculture	43%
Industry and mining	19%
Commerce, transportation, and communication	12%
Other	26%
<i>Exports in 1953</i> <i>Imports in 1953</i>	
Value (\$1,000,000) 390	Value (\$1,000,000) 410
Percent to U.S. 68	Percent from U. S. 79

LIFE INSURANCE IN THE PHILIPPINES AND
PHILAMLIFE—SELECTED DATA

Table 1

**The Growth
of Life
Insurance**

As of Dec. 31	Business in Force* (1,000,000 pesos)		Number of Policies** (1,000)	
	Philamlife	All Other Companies	Philamlife	All Other Companies
1940	—	212	—	73
1947	20	286	6	76
1948	86	336	25	85
1949	143	362	45	89
1950	212	376	72	91
1951	252	419	88	96
1952	296	444	103	98
1953	346	469	120	102

* Including group insurance.

** Excluding group insurance.

Source: Annual Report of the Insurance Commissioner of the Philippines.

Table 2

**Approximate % Philippine
Population Covered by
Individual Life Insurance Policies**

1940	0.44%
1947	0.43
1948	0.57
1949	0.69
1950	0.83
1951	0.91
1952	0.97
1953	1.05

Source: Derived from annual reports of the Insurance Commissioner of the Philippines and from census data. 1953 estimated. Group coverage, relatively small in numbers, not included.

Table 3 Characteristics of
Philamlife Policyholders
and Policies

	Percent of All Policies In Force	Percent of Category in Endowment Plans	Average Amount of Insurance
<i>By Age Group</i>			
Juvenile	17.8	99.5	P 2200
18-22	12.2	93.0	1700
23-27	19.5	92.2	2300
28-32	16.0	91.0	3000
33-37	13.8	89.6	3400
38-42	10.4	87.9	3700
43-47	6.0	84.3	4100
48-52	2.8	78.8	4100
53-57	1.1	69.2	4100
58-62	0.4	50.0	4100
<i>By Sex and Race</i>			
Male: Filipino	59.1	90.0	2700
Chinese	6.5	96.1	6200
Other	0.3	33.3	8900
Total male	65.9	90.3	3000
Female: Filipina	32.9	93.3	2100
Chinese	1.1	92.3	5800
Other	0.1	100.0	3300
Total female	34.1	93.3	2200
<i>By Occupation</i>			
Proprietors and executives	8.1	91.6	4800
Professionals	10.0	91.5	3400
Skilled laborers	17.9	91.5	3000
Farmers, etc.	8.0	91.5	2700
Juvenile	17.8	99.5	2200
Armed Forces	17.2	87.7	1300
Other	21.0	87.1	3200
<i>By Location</i>			
Manila*	27.2	88.8	3000
Provinces	72.8	92.3	2700

* Does not include all of the predominately urban area in the immediate vicinity of Manila, hence understates urban policy holders.

Source: Special sample tabulation made for this study from company records.

Table 4 **Indication of Persistency - I**

Ratio of Net Increase of Insurance in Force to Insurance Issued During the Year		
Year	Philamlife	All Philippine Companies
1948	80%	59%
1949	72	48
1950	72	51
1951	38	37
1952	49	39

Source: Derived from annual reports of the Insurance Commissioner of the Philippines.

Table 5 **Indication of Persistency - II**

Issues of	Percent of Original Issues Persisting to End of Year Stated — Philamlife Only					
	1st yr.	2nd yr.	3rd yr.	4th yr.	5th yr.	6th yr.
1947	84.4	73.2	72.9	67.9	62.1	55.4
1948	82.6	68.5	59.8	52.5	48.5	
1949	88.7	71.4	58.4	54.4		
1950	84.2	68.7	61.3			
1951	84.3	77.9				
1952	80.1					

Source: Derived from company records.

Table 6 **Percentage Distribution of
Philamlife Investments
by Major Types**

Type of Investment	End of Year							1954 Goal
	1947	1948	1949	1950	1951	1952	1953	
Bonds and stocks	83%	51%	17%	23%	24%	20%	15%	50
First mort- gage loans	17	49	56	40	27	2	17	
Loans to policyholders			1	7	14	2	25	
Time deposits			14	17	7		10	
Other*			12	8	13		9	25
Housing projects				5	10	1	12	
Commercial- industrial projects					5		12	

* Includes Home and Branch Office real estate.

Source: Company records. 1954 figures represent company policy goals
as of February 1953.

THE POLICY COMMITTEE'S STATEMENT

IN UNDERTAKING THIS PROJECT the National Planning Association is not attempting to assess or describe how U.S. business enterprises generally operate abroad. Rather we are concerned with an objective study of some selected cases in which U.S. business management has, in pursuance of normal and profitable operations abroad, taken positive steps toward raising living standards and helping to integrate into countries less developed than the United States the foundations of a more mature economy. We are attempting only to sketch out those aspects of typical managerial efforts that contribute to the general economic and social progress of a host country. In confining ourselves to this facet of the problem of United States private enterprise abroad, we are not deprecating or belittling the other side of the coin, nor are we trying to write the "success" stories of nonprofit operations.

Underlying this project are the following assumptions concerning the relationships between U.S. private enterprise and the interests of the countries in which this private enterprise is operated:

First Assumption

We assume that certain, though not all, U.S. private enterprises operating in foreign countries have made contributions to the welfare of those countries and that these contributions have resulted from the foresight of management. We are convinced, therefore, that well-operated and profitable businesses abroad can establish patterns of behavior that contribute materially to the welfare of the countries involved without unduly disturbing native cultures, living patterns, and ideologies.

Second Assumption

Properly managed private enterprise abroad contributes to its market and economic area an organizational pattern, within which new enterprises are developed by people native to the host country. This chain reaction helps to create a manageable, more productive

economy. In other words, well-run U.S. enterprise abroad not only can be self-sustaining, but also can give birth to or stimulate the development of corollary enterprises as a result of the private enterprise pattern taking hold.

Third Assumption

A basically private enterprise economy in less developed countries, of which well-managed U.S. private enterprises can well be a part, provides strong insulation against Communism and political instability. Therefore, it is to the national interest of the United States to have "policies" that promote enlightened and well-managed U.S. enterprises abroad. Conversely, it is in the best interests of all parties concerned that the United States Government use its influence to promote cooperation between U.S. private enterprises abroad and the countries in which they operate.

Fourth Assumption

The soundest way of assuring continued access in the less developed countries to those vital raw materials which the United States needs is to take cooperative measures to help those countries improve their standards of living and strengthen their economies. One of the most practical ways of doing this is to provide encouragement to U.S. private enterprises to help these countries develop their resources insofar as they want the assistance of U.S. management organization, private capital, knowledge, experience, and technical skill.

Fifth Assumption

In the long run, the "success" of an enterprise abroad must be judged in the light of its relations to the host country. The ultimate success and permanence of the enterprise must necessarily be related to the importance of its contributions insofar as the host country is concerned, since enterprises typical of those we are studying do not exploit host countries, but create

wealth which is shared by their citizens. If U.S. private enterprises abroad are managed in such a way that the host countries are convinced they are also promoting their economic and social development, then it is most likely that they will receive the co-operation essential to long-run survival.

Since the above assumptions are general considerations, it is unlikely that any specific *Case Study* will bear directly on all these points. All *Case Studies*, however, will be measured against the fifth basic assumption. Our inquiry, therefore, is an area that until now has been almost wholly neglected.

The files, information, and services of our governmental departments, numerous agencies and special commissions, the Export-Import Bank and the International Bank for Reconstruction and Development are replete with current and historical information helpful to the businessman contemplating operations in foreign lands. In addition there are many private agencies—particularly commercial and investment banks maintaining foreign departments—engaged in counseling on legal, financial, trade, transportation, and local political conditions throughout the world. Our *Case Studies* will not aid the student or businessman seeking out specific answers to questions in the legal, financial, political, and related subjects. We are under no illusions as to the many difficulties that beset management in initiating and maintaining operations abroad.

We do not assume that U.S. enterprises will go abroad unless they believe they can return a satisfactory profit on the capital placed at risk, although collateral considerations may be involved. In pursuing profits, however, the “successful” enterprise finds it pays dividends to strive consciously to contribute to the social and economic life of a host country. For this reason, there should be no misunderstanding of what we are studying. We are not delving into the business transactions of any company under study except as they may relate to these contributions in our area of inquiry.

We frequently hear these days of the unsettled conditions abroad, that little or no basis exists for private investments in foreign countries, and particularly that the world is hostile to

U.S. capital and our production methods (though not to our achievement!). This may be true among certain segments of the world's population, but an increasing number of foreign governmental and private leaders are consciously trying to create and maintain an economic climate favorable to such ends. Most of the world is short of capital and very short of dollars --yet at present it is only from the United States that they may obtain both to a degree necessary to their continued growth.

Capital that goes abroad without management—as much of it did in the early twenties—often constitutes a poor risk. That which goes abroad under American management—through U.S. business firms establishing branches or subsidiaries—usually shows better results both from a profit standpoint and in terms of economic and social contributions to the host countries. Governmental guarantees by this country are not nearly as effective in safeguarding such investments as the enlightened attitudes of the U.S. businessmen who manage the investments. This country has much to offer the world in business organization, technical know-how, and creative capital. The building of economic units in foreign countries that are not only profitably managed but also provide a positive economic and social contribution to their host countries are the surest guarantees that such capital will not be subject to abnormal risks.

The rapid expansion of industrial capacity here and abroad has enormously increased the need for raw materials throughout the world. On this basis alone, it is in our self interest to encourage private capital to seek profitable opportunities in under-developed areas. And in so doing, we can demonstrate that we are creating new outlets for electric power, transportation and port facilities, increased industrialization, greater demand for U.S. capital goods, and contributing to the increase in international trade in general. However, unless we can come to a more realistic "import" policy, the export of U.S. capital will shrink and with it will go one of the principal ways to meet the present critical "dollar gap." This dollar shortage abroad is already seriously threatening our nondefense export trade.

Because we live in a world of state trading, exchange controls, export subsidies, import quotas, and intensified national-

istic aspirations there is special need for correlating private and governmental action in the exportation of U.S. capital. Everyone, including the taxpayer, benefits when governmental action constructively complements the flow of private capital abroad; when such action anticipates and helps create the appropriate climate, and when it fosters the long-range development of economic and trade relations of this and responding host countries.

The fact that we are only studying successful companies certainly implies that they have been profitable to their stockholders, and therefore we will not concern ourselves directly with this facet of their success. Our concern is rather how these selected though typical companies have earned the title "successful" insofar as they have benefited the host countries. For convenience, we may outline these principal possible benefits in the order of greatest ease in ascertaining their existence:

I. *Contribution to the basic economy*

- A. Additional resources (land, minerals, etc.) brought into use for the country.
- B. Transportation, energy, communications which are built, fostered, subsidized, or otherwise created by the company or by virtue of its operations and available to the use of the country in whole or in part.
- C. Products of the company consumed or used in the host country.
- D. Related industries developed with company assistance or which are attributable to the company's operations.
- E. Service industries and trades dependent on and arising because of the operations of the company and the additional purchasing power of the labor force.

II. *Contributions to living standards*

- A. Improvement in wages, hours of work, and employment conditions.
- B. Better housing.

- C. Improved health and sanitation.
- D. Greater opportunities for education and recreation.
- E. Higher levels of nutrition.

III. *Institutional benefits*

- A. Formation of and use of local capital.
- B. Improvement in skills.
- C. Changes in patterns of doing business.
- D. Tax, social, and other legislation encouraged or fostered.
- E. Changes in public administration.
- F. Greater civic responsibility.

IV. *Cultural*

- A. Are the company operations as a whole tending to increase the middle class?
- B. Is initiative passing to more responsible groups?
- C. Are class conflicts decreasing?
- D. Is there greater respect for human rights?

Unfortunately many of these broad areas of benefits cannot be measured or even detected except over a considerable period of time. They will be present or absent in varying degree according to the type, size, and purpose of the capital investment and the stage of the country's development at the time the initial investment was made. Certainly the cultural benefits will emerge gradually and probably only will be measurable by the influence of the total impact of all managed capital—foreign and local—rather than any one part of it.

In addition to these external factual areas, we are vitally interested in studying the relationships and attitudes that have made these practices successful:

How has the company met the obstacles which it has encountered?

To what extent has the company introduced U.S. managerial skills and methods cut to fit the operating picture abroad?

How has the company sought and obtained the co-operation of employees, government officials, and community; and have the views of these people changed markedly since the company first started operations?

Has the company sought to identify itself with the community as a friendly institution?

Has it sought to train native labor for the higher skills, for supervisory and executive positions, and have such efforts resulted in higher productivity, greater responsibility, and understanding on the part of labor?

Have the company's practices in investing capital and securing return of profits been made progressively easier?

Has the company brought know-how, technical assistance, and business management that could not have been provided at all—or as effectively—by government programs?

Above all, we shall be describing U.S. business management attitudes toward its job of conducting successful operations abroad, its flexibility and patience in meeting the great obstacles that are presented in so many fresh and challenging ways. Let no one be deceived by these *Studies* into believing that the way of business management abroad is all romance, huge profits, and success, purchaseable in the market place. The rewards are adequate, the work is hard but interesting, and, as at home, the results are created, not bought.

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